



NBK TIER 2 LIMITED

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

unconditionally and irrevocably guaranteed by

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

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

U.S.\$300,000,000 2.500 per cent. Resetting Subordinated Tier 2 Notes due 2030

The U.S.\$300,000,000 2.500 per cent. Resetting Subordinated Tier 2 Notes due 2030 (the "Notes") shall be issued by NBK Tier 2 Limited (the "Issuer") on 24 November 2020 (the "Issue Date"). The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by National Bank of Kuwait S.A.K.P. (the "Bank" and, in its capacity as the guarantor, the "Guarantor") under a subordinated guarantee dated the Issue Date (the "Subordinated Guarantee"). The obligations of the Guarantor under the Subordinated Guarantee will be subordinated to all Senior Obligations (as defined herein) of the Guarantor, as more particularly described in Condition 4.2 (*Status of the Guarantee and Subordination*).

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

Interest Payment Amounts (as defined in the Conditions) shall be payable subject to and in accordance with the terms and conditions set out in the "Terms and Conditions of the Notes" (the "Conditions") on the outstanding principal amount of the Notes from (and including) the Issue Date to (but excluding) 24 November 2025 (the "Reset Date") at a rate of 2.500 per cent. per annum. If the Notes are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the Reset Date, Interest Payment Amounts shall be payable from (and including) the Reset Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the Reset Date, equal to the Reset Interest Rate (as defined in the Conditions). Interest Payment Amounts will be payable semi-annually in arrears on 24 May and 24 November in each year, commencing on 24 May 2021 (each, an "Interest Payment Date"). Payments on the Notes will be made without withholding, deduction or retention for, or on account of, taxes, duties, assessments or other governmental charges of whatever nature ("Taxes") imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions), subject to Condition 9 (*Taxation*).

Unless the Notes have previously been redeemed or purchased and cancelled as provided in the Conditions, the Issuer shall redeem the Notes at their principal amount on 24 November 2030 (the "Maturity Date"), but Notes may, at the option of the Issuer and the Guarantor, subject to the prior approval of the Central Bank of the State of Kuwait (the "Financial Regulator"), which shall include any successor entity having primary bank supervisory authority with respect to the Guarantor in the State of Kuwait), be redeemed at par (in whole but not in part) on the Reset Date or any Interest Payment Date thereafter, subject as further described in Condition 7 (*Redemption and Variation*). In addition, the Notes may, in the event of a Tax Event or Capital Event (each as defined in the Conditions), be redeemed or varied at any time (in whole but not in part), subject as further described in Condition 7 (*Redemption and Variation*).

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

The Notes may only be offered, sold or transferred in registered form in minimum principal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Delivery of the Notes in book-entry form will be made on the Issue Date. The Notes will be represented by interests in a global certificate in registered form (the "Global Certificate") which will be registered in the name of a nominee for, and will be deposited with a common depository for, Euroclear Bank S.A./NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg. Definitive individual certificates in respect of beneficial interests in the Global Certificate ("Individual Certificates") will not be issued except in certain limited circumstances described herein.

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

This Prospectus will be valid for a year from 23 November 2020. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when this Prospectus is no longer valid. For the purposes of this Prospectus, "valid" means valid for admissions to trading on a regulated market by or with the consent of the Issuer and the obligation to supplement this Prospectus is only required within its period of validity between the time when this Prospectus is approved and the closing of the offer period for the Notes or the time when trading on a regulated market begins, whichever occurs later.

The Group has a long term rating of A and a short term rating of A-1 from S&P Global Ratings Europe Limited ("S&P"); a long term rating of A1 and a short term rating of P-1 by Moody's Investors Service Cyprus Ltd. ("Moody's"); and a long term rating of AA- and a short term rating of F1+ by Fitch Ratings Ltd. ("Fitch"). The Notes have been assigned a rating of Baa1 by Moody's. Each of S&P, Moody's and Fitch is established in the European Union or the United Kingdom and is registered under Regulation (EC) No. 1060/2009, as amended (the "CRA Regulation"). As such each of S&P, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority ("ESMA") on its website at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk> in accordance with the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

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

Global Coordinators and Joint Lead Managers

Citigroup

Watani Investment Company K.S.C.C.

The date of this Prospectus is 23 November 2020

IMPORTANT NOTICE

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

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

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

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

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

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

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Bank and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank or the Joint Lead Managers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any

advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of any Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of any Notes in the United States, the United Kingdom, the EEA, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre (the "**DIFC**")), the DIFC, the State of Kuwait ("**Kuwait**"), the Kingdom of Saudi Arabia, the Kingdom of Bahrain ("**Bahrain**") and the State of Qatar ("**Qatar**") (see "*SUBSCRIPTION AND SALE*").

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

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

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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

STABILISATION

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

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

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

PRIIPS REGULATION / PROHIBITION OF SALES TO RETAIL INVESTORS IN THE EEA AND THE UNITED KINGDOM

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

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as amended or modified from time to time (the "**SFA**"), and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**") the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the Singapore Monetary Authority (the "**MAS**") Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

NOTICE TO THE RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

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

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

NOTICE TO THE RESIDENTS OF THE KINGDOM OF BAHRAIN

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

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

sale or invitation to subscribe or purchase Notes, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

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

NOTICE TO RESIDENTS OF THE STATE OF QATAR

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

NOTICE TO RESIDENTS OF KUWAIT

Unless all necessary approvals from the Kuwait Capital Markets Authority (the "CMA") pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities and its executive bylaws (each as amended) (the "CML Rules"), and the various resolutions, regulations, directives and instructions and announcements issued from time to time pursuant thereto, or in connection therewith (regardless of nomenclature), have been given in relation to the marketing of, and sale of, the Notes, the Notes may not be offered for sale, nor sold, in Kuwait. Neither this Prospectus nor any of the information contained herein is intended to lead to the conclusion of any contract of whatsoever nature within Kuwait.

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

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Historical Financial Statements

This Prospectus contains:

- the unaudited consolidated financial statements of the Group as at and for the nine months ended 30 September 2020 (with comparative data for the nine months ended 30 September 2019) (the "**Interim Financial Statements**");
- the audited consolidated financial statements of the Group as at and for the year ended 31 December 2019 (with comparative data for the year ended 31 December 2018) (the "**2019 Financial Statements**"); and
- the audited consolidated financial statements of the Group as at and for the year ended 31 December 2018 (with comparative data for the year ended 31 December 2017) (the "**2018 Financial Statements**");

In this Prospectus, the 2019 Financial Statements and the 2018 Financial Statements are together referred to as the "**Annual Financial Statements**" and the Interim Financial Statements and the Annual Financial Statements are together referred to as the "**Financial Statements**".

The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "*Interim Financial Reporting*". The accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the preparation of the Annual Financial Statements. The Interim Financial Statements have been jointly reviewed by Ernst & Young Al Aiban, Al Osaini & Partners with license no. 68A ("**E&Y**") and Deloitte & Touche Al Wazzan & Co. with license no. 62A ("**Deloitte**") in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" as stated in their review report included elsewhere in this Prospectus.

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**"), as adopted for use by the State of Kuwait and comply with the regulations issued by the Central Bank of Kuwait for financial services institutions in the State of Kuwait (the "**CBK regulations**"), and have been jointly audited by E&Y and Deloitte in accordance with International Standards on Auditing as stated in their audit reports included in this Prospectus. The CBK regulations require the expected credit loss ("**ECL**") credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with the CBK guidelines (as discussed in note 30.1.1 to the 2019 Financial Statements under the heading "*Measurement of ECLs*") and the provisions as required by CBK instructions at 15 December 1996 with further amendments thereof ("**CBK Instructions**"); the consequent impact on related disclosures and the adoption of all other requirements of the IFRS as issued by the International Accounting Standards Board (the "**IASB**").

The Group's financial year ends on 31 December and references in this Prospectus to "**2019**", "**2018**" and "**2017**" are to the 12 month period ending on 31 December in each year.

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

- (i) the differences between IFRS and U.S. generally accepted accounting principles ("**US GAAP**") or any other systems of generally accepted accounting principles in the jurisdictions of such prospective investors and how those differences might affect the financial information included or incorporated by reference in this Prospectus; and
- (ii) the impact that future additions to, or amendments of, IFRS may have on the Group's results of operations or financial condition, as well as on the comparability of the prior periods.

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

All financial information regarding the Group in this Prospectus as, or that relates to, the nine month periods ended 30 September 2020 and 30 September 2019 is unaudited and has been extracted or derived from the Interim Financial Statements or from the Group's unaudited management accounts based on accounting records, as applicable, or is based on calculations of figures from these sources.

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

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

Terminology

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

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

Non-IFRS Financial Measures and APMs

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

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

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

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

Monetary and Exchange Rate Policy

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

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

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

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

The following table shows the Kuwaiti dinar per U.S.\$1.00 exchange rate based on daily data for the nine months ended 30 September 2020 and for the year ended 31 December 2019.

	High U.S.S/KD	Low U.S.S/KD	Difference	Difference (%)
30 September 2020	0.310	0.303	0.007	2.29
31 December 2019	0.304	0.303	0.001	0.59

Source: Central Bank of Kuwait

Definitions

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

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

Certain Conventions

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

All references in this Prospectus to:

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

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RISK FACTORS

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

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

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

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

The Issuer has a limited operating history and no material assets

The Issuer is a prescribed company with limited liability, incorporated under the laws of the DIFC on 27 September 2020 and, accordingly, only has a limited operating history. The Issuer is a wholly owned subsidiary of the Guarantor. All proceeds from the issue of the Notes will be lent by the Issuer to the Guarantor pursuant to the terms of the On-Loan Agreement (as defined in the Conditions). Payments of principal and interest under the Loan (as defined in the Conditions) by the Guarantor to the Issuer will fund the Issuer's payment obligations under the Notes. The Guarantor's obligations under the On-Loan Agreement are subordinated in a manner equivalent to the subordination of its obligations under the Subordinated Guarantee, as described in Condition 4.2 (*Status of the Guarantee and Subordination*) and under the section entitled "*Use of Proceeds*".

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

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

Economic risks

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

The Group, in common with other financial institutions, is susceptible to changes in the macro-economic environment and the performance of financial markets generally, and, in particular, the oil price environment. See "*Risks Relating to the Region in which the Group Principally Operates— Kuwait's economy and government revenues are significantly impacted by, and are dependent upon, international oil prices*" below.

The Group's operations are concentrated in Kuwait and the MENA region. For the nine months ended 30 September 2020, 75.2 per cent. of the Group's net operating income was derived from its operations in Kuwait (compared to 75.4 per cent. for the year ended 31 December 2019 and 76.3 per cent. for the year ended 31 December 2018). As at 31 December 2019, 79.0 per cent. of its maximum exposure to credit risk (including contingent liabilities) was concentrated in the MENA region, principally in Kuwait.

As of October 2020, the economy was experiencing a partial recovery from the lockdowns and business closure measures put in place to address the COVID-19 pandemic. Consumer spending rebounded, helped by pent-up demand and policy support measures, while real estate sales had recovered close to pre-pandemic levels. Despite these positive signs, however, the Group believes that further reforms are still required to boost longer-term growth potential. According to data published by the Kuwait Ministry of Finance, the fiscal deficit in Kuwait widened to 9.5 per cent. of GDP in the fiscal year ended 31 March 2020 from 3 per cent. of GDP in the previous fiscal year. Within the banking sector, credit growth was holding up despite economic disruptions caused by the COVID-19 pandemic, helped by a pick-up in business lending. Borrowing costs, which increased in 2018 as the CBK raised its benchmark interest rate by 0.25 per cent. to 3.0 per cent., decreased in October 2019 as the CBK cut its benchmark rate by 0.25 per cent. to 2.75 per cent. On 4 March 2020, the CBK lowered its benchmark interest rate by 25bps to 2.50 per cent. followed by another decrease on 16 March by 100bps resulting in a benchmark rate of 1.50 per cent. During the same period, the U.S. Federal Reserve cut resulted in benchmark interest rates ranging between 0 per cent. to 0.25 per cent.

According to data published by the CBK, the exchange rate of the Kuwaiti dinar remained relatively stable against other currencies. During the fiscal year ended 31 March 2020, the average rate of Kuwaiti dinar against the US Dollar amounted to 304.340 fils to one US Dollar compared to 302.743 fils in the previous year.

Outside Kuwait, the Group's largest operation within the MENA region is that of its 98.5 per cent. owned Egyptian subsidiary, National Bank of Kuwait – Egypt S.A.E. ("**NBK Egypt**") which, for the six months ended 30 June 2020, accounted for 9.0 per cent. of the Group's net operating income (compared to 8.0 per cent. for the year ended 31 December 2019). Egypt, in past years, and particularly since the 2011 Egyptian revolution, experienced a turbulent period including significant political unrest and multiple terrorist attacks which culminated in a period of economic instability, although economic conditions have been somewhat more positive since 2019, up to the COVID-19 outbreak. Egypt is still facing a number of risks, including high exposure to external shocks and high debt servicing costs, an acceleration in inflation which is currently low, as well as further economic fallout from the COVID-19 pandemic. In addition, through its consolidation of NBK Egypt, the Group is impacted by exchange rate movements in the Egyptian pound and any significant devaluation of the Egyptian pound could have a material adverse effect on the Group's business, results of operations and financial condition.

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

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

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

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

The extent to which the COVID-19 pandemic impacts the Group's business, results of operations, and financial condition, as well as the Group's regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Pursuant to the consumer loan deferral program, the CBK has allowed, as part of the COVID-19 support measures, the loss of KD 130 million already charged directly to Retained Earnings in June 2020, to be deferred and deducted from regulatory capital equally over 4 years starting 2021. The Group may be forced to consider adjustments to specific elements of its operations and/or customer exposures including loan tenor extensions or adjustments to loan and credit card instalments. Any material change in the financial markets, the Kuwaiti economy or the global economy as a result of these events or developments may materially have an adverse effect on the Group's business, results of operations and financial condition.

Credit risks

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

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

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

As at 30 September 2020, the Group's loans, advances and Islamic financing provided to customers (before provisions), amounted to KD 18,295 million compared to KD 17,061 million as at 31 December 2019, KD 16,009 million as at 31 December 2018 and KD 15,118 million as at 31 December 2017. The Group's non-performing loans as at the same dates amounted to KD 346 million, KD 187 million, KD 222 million and KD 214 million, respectively, equal to 1.89 per cent., 1.10 per cent., 1.38 per cent. and 1.42 per cent., respectively, of the Group's total loans, advances and Islamic financing provided to customers.

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

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

The Group's loans, advances and Islamic financing to customers, its debt securities portfolio and its holding of Kuwaiti Government treasury bonds and CBK bonds together constituted KD 23,361 million, or 76.9

percent. of its total assets, as at 30 September 2020, KD 22,020 million, or 75.2 per cent. of its total assets, as at 31 December 2019 and KD 20,677 million, or 75.4 per cent. of its total assets, as at 31 December 2018.

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

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

In terms of sector concentration, the Group does not disclose the sectoral breakdown of its loans, advances and Islamic financing and debt securities portfolios, although it does disclose the sectoral breakdown of its financial assets and off-balance sheet items which represent its maximum exposure to credit risk and which totalled KD 34,453 million as at 30 September 2020, KD 32,981 million as at 31 December 2019 and KD 31,017 million as at 31 December 2018. The Group's maximum exposure to credit risk has concentrations of exposure to particular economic sectors, including banks and financial institutions which, as at 31 December 2019, accounted for KD 10,542 million, or 32.0 per cent. of its maximum total exposure to credit risk. Other significant sectoral concentrations as at 31 December 2019 were the retail/consumer segment, which accounted for KD 5,507 million, or 16.7 per cent., of the Group's maximum exposure to credit risk, the government sector, which accounted for KD 3,571 million, or 10.8 per cent., of the Group's maximum exposure to credit risk and the real estate sector, which accounted for KD 3,463 million, or 10.5 per cent., of the Group's maximum exposure to credit risk. Each of these sectors presents different levels of risk. For example, the banking sector is particularly exposed to adverse economic conditions, see "*Economic risks—Macro-economic and financial market conditions have materially adversely affected and may continue to materially adversely affect the Group's business, results of operations and financial condition*" above. In addition, the real estate market is cyclical and the retail/consumer segment is also impacted by economic conditions, particularly factors such as the deferral program announced as a result of COVID-19, inflation, unemployment, wage freezes and house price declines.

In terms of client concentration, the Group's 20 largest loans, advances and Islamic financing provided to customers outstanding as a percentage of its gross financing portfolio as at 31 December 2019 was 16.0 per cent. (2018: 17 per cent.). The Group is therefore particularly exposed to a default by the borrowers under any one or more of these large exposures.

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

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

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

Since 1 January 2018, in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK, the Group is required to recognise impairment allowances for credit facilities at an amount equal to the higher of (i) the ECL under IFRS 9 according to CBK guidelines dated 25 December 2018 and (ii) the provisions for credit losses as required by the CBK instructions of December 1996 as amended in 2007. With respect to other financial assets, the Group is required to adopt IFRS 9 in

compliance with the requirements of Kuwait Law No. 1 of 2016 on the Promulgation of the Companies Law.

The Group's overall level of impairment allowances is based upon a wide range of factors, including the volume and type of lending and financing being conducted, the collateral held, applicable regulations, past due facilities, economic conditions and other factors related to the recoverability of various facilities. Although the Group endeavours to establish an appropriate level of impairment allowances in accordance with applicable requirements, it may have to significantly increase its impairment allowances for credit losses in the future as a result of increases in non-performing assets, deteriorating economic conditions (especially from the impact of COVID-19) leading to increases in defaults and bankruptcies, or for other reasons.

As at 31 December 2019, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.10 per cent. (2018: 1.38 per cent.).

As at 31 December 2019, the Group had KD 187 million of impaired loans, advances and Islamic financing and its provision for credit losses thereon was KD 509 million, in each case calculated in accordance with CBK requirements. The Group's expected credit loss on credit facilities, determined in accordance with IFRS 9, was KD 395 million as at 31 December 2019. As at 31 December 2018, the Group had KD 222 million of impaired loans, advances and Islamic financing and its provision for credit losses thereon was KD 506 million, in each case calculated in accordance with CBK requirements. The Group's expected credit loss on credit facilities, determined in accordance with IFRS 9, was KD 408 million as at 31 December 2018.

As at 31 December 2019, the Group's provision for credit losses on loans, advances and Islamic financing covered 272.2 per cent. of its impaired loans, advances and Islamic financing (as at 31 December 2018: 228.1 per cent.).

The introduction of IFRS 9 had an impact on the Group's impairment allowances on financial assets other than credit facilities which amounted to KD 34 million as at 1 January 2018 compared to no impairment as at 31 December 2017.

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

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

The estimated fair value of the collateral which the Group held against its gross past due or impaired loans, advances and Islamic financing to customers as at 31 December 2019 was KD 92 million. Collateral held as security against impaired loans, advances and Islamic financing primarily relates to real estate and securities. Where the collateral is enforced and the value realised exceeds the outstanding debt owed to the relevant member of the Group, the excess is returned to the customer concerned and is not available for offset against other debts. Reflecting this fact and the fact that at the time when enforcement is required collateral values may be adversely affected, particularly if, for example, the enforcement results from a period of significant adverse economic conditions, there is no assurance that the value of the Group's collateral will be sufficient to cover all defaulting debts, and any losses recorded in such case, to the extent they have not already been provided for, will be recorded as a charge to the Group's income statement.

The practice of pledging assets (such as securities portfolios and real estate assets) to obtain financing from a bank is subject to certain limitations and administrative restrictions under Kuwaiti law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforced in Kuwaiti courts. Accordingly, the Group may have difficulty foreclosing on collateral (including any real estate collateral) or enforcing guarantees or other third party credit support arrangements when debtors default on their financial obligations.

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomic for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its credit losses. As at 30 September 2020,

the Group had loans, advances and Islamic financing to customers (net of provisions) totalling KD 17,634 million (31 December 2019: KD 16,553 million, 31 December 2018: KD 15,503 million). For each of 2019, 2018 and 2017, respectively, approximately 48 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (excluding consumer loans and net of provisions) was secured by collateral, primarily comprising cash, shares and real estate collateral.

The Group typically requires additional collateral in the form of cash and/or other assets in situations where the Group may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for credit facilities granted to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent the Group from foreclosing on such collateral for its full value or at all in the event that a customer becomes insolvent and enters bankruptcy, and could thereby adversely affect the Group's ability to recover the full amounts advanced to the customer.

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

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

The Group is subject to the risk of deterioration in the commercial and financial soundness, or perceived soundness, of other financial institutions. This risk is particularly relevant to the Group since banks and other financial institutions represented 32.0 per cent. of the Group's maximum exposure to credit risk as at 31 December 2019 (2018: 31.9 per cent.)

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

Liquidity risks

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

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

As at 30 September 2020, the Group had cash and short-term funds of KD 4,405 million (31 December 2019: 3,787 million, 31 December 2018: KD 2,967 million) and a liquid asset ratio (defined as the sum of cash and short-term funds, CBK bonds, Kuwait Government treasury bonds, deposits with banks and investment securities excluding those at amortised cost, divided by total assets) of 35.1 per cent. (as at 31 December 2019: 36.2 per cent., as at 31 December 2018: 35.9 per cent.).

The Group is subject to the Basel III Liquidity Coverage Ratio ("LCR") as adopted by the CBK. The LCR is a metric introduced by the Basel Committee on Banking Supervision as part of the Basel III criteria to measure a bank's ability to manage a sustained outflow of customer funds in a liquidity stress event over a 30-day period. The ratio is calculated by taking a financial institution's stock of high quality liquid assets ("HQLAs") – which include low-risk, highly marketable asset classes, designed to provide significant

sources of liquidity in such a stress scenario – and dividing it by its projected net cash outflows over the immediately following 30-day period. The LCR requires that banks have sufficient HQLAs in their liquidity buffer to cover the difference between expected cash outflows and expected capped cash inflows over a 30-day stressed period. Basel III requires the minimum value of the ratio be 100 per cent. (i.e., an institution's stock of HQLAs should at least equal projected total net cash outflows). The CBK introduced the LCR in a phased manner, setting benchmarks of 70 per cent. in 2016, 80 per cent. in 2017, 90 per cent. in 2018 and 100 per cent. from 2019. Kuwaiti banks are required to submit, along with existing liquidity reports, their LCR reports on a monthly basis (including daily figures for the month) for monitoring purposes as well as LCRs by major currency. During the quarter ended 31 December 2019, the Group held an average portfolio of HQLAs valued at KD 5,833 million and had an average LCR ratio of 159.7 per cent. (2018: quarterly average HQLAs valued at KD 5,596 million and an average LCR ratio of 163.0 per cent.). Despite the impact of COVID-19 lockdown measures on the global economy and financial markets, the Group maintained a comfortable liquidity position. The Group three months average LCR as at 30 September 2020 was 152.2 per cent. while the HQLA was KD 6,797 million and the net cash outflow was KD 4,480 million.

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

The Group is also subject to the Basel III Net Stable Funding Ratio ("NSFR") as adopted by the CBK. The NSFR is a metric introduced by the Basel Committee on Banking Supervision as part of the Basel III criteria to measure a bank's ability to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits over reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. The NSFR is defined as the amount of available stable funding ("ASF") relative to the amount of required stable funding ("RSF"). ASF is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. RSF is defined as the portion of assets and off-balance sheet exposures expected to be funded on an ongoing basis over a one-year horizon. The amount of the stable funding required of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures. Basel III requires the minimum value of the ratio be 100 per cent. (i.e., ASF divided by RSF must be greater than or equal to 100 per cent.) from 2016. Kuwaiti banks are required to submit, along with existing liquidity reports, their NSFR reports on a monthly basis (including a daily report for the month) for monitoring purpose. As at 31 December 2019, the Group had an NSFR ratio of 111.1 per cent. (2018: NSFR ratio of 112.6 per cent.). The Group NSFR as of 30 June 2020 was 113.7 per cent. and as of 30 September 2020 was 114.4 per cent.

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

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

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

The Group is exposed to liquidity risk as a result of mismatches in maturity dates of assets and liabilities. In common with other banks in Kuwait, many of the Group's liabilities are short-term demand and time

deposits, whereas its assets are generally medium to long-term loans. Mismatches between the Group's maturities of assets and liabilities could arise if the Group is incapable of obtaining new deposits or alternative sources of finance or the cost of obtaining them becomes prohibitive.

Although the Group has accessed wholesale funding, including through international financial markets, in order to diversify and increase the maturity of its funding sources, such borrowings have not eliminated the Group's asset-liability maturity gaps. As at 30 September 2020, 82.1 per cent. of the Group's funding (which comprises total liabilities and equity) had remaining maturities of one year or less or were payable on demand (31 December 2019: 81.9 per cent., 31 December 2018: 82.2 per cent.).

The Group's customer deposits amounted to KD 17,499 million, or 66.3 per cent. of its total liabilities, as at 30 September 2020 (as at 31 December 2019: KD 15,931 million, or 63.7 per cent. of its total liabilities, as at 31 December 2018: KD 14,389 million, or 60.6 per cent. of its total liabilities). Deposits from the Kuwaiti government and its related agencies accounted for approximately 15 per cent. to 28 per cent. of the Group's total funding in the period between 1 January 2017 and 30 September 2020. In terms of liabilities, the Group's 20 largest customer deposits constituted 23.0 per cent. of its total customer deposits as at 30 September 2020 (as at 31 December 2019: 28 per cent. of total customer deposits, as at 31 December 2018: 28 per cent. of total customer deposits).

As at 30 September 2020, 82.9 per cent. of the Group's deposits had maturities of less than three months or were repayable on demand although (31 December 2019: 77.6 per cent., 31 December 2018: 79.3 per cent.), as is typical in the Kuwaiti banking industry, these deposits have generally proved to be "sticky" in nature and a stable source of funding based on historical behaviour analysis. Nevertheless, they are effectively repayable on demand or very short notice.

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

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

As part of its normal banking business, the Group issues irrevocable commitments to extend credit, guarantees, letters of credit and acceptances. All of these are accounted for off-balance sheet until such time as they are actually funded or cancelled. Although these commitments are contingent they, nonetheless, subject the Group to related credit, liquidity and market risks. As at 30 September 2020, the Group had KD 5,579 million outstanding in contingent liabilities and irrevocable commitments to grant credit (31 December 2019: KD 5,290 million), equal to 24.0 per cent. of its combined loans, advances and Islamic financing to customers and contingent liabilities and commitments (31 December 2019: 24.2 per cent.).

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

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

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

There is no assurance that the Group's ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. A downgrade of the Group's credit ratings, or a negative change in their outlook, may:

- limit the ability of the Group and any of its members to raise funding;
- increase the cost of borrowing of the Group and any of its members; and
- limit the ability of the Group and any of its members to raise capital,

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

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

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

Market risks

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

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

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

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

effect on its business, results of operations and financial condition. Given the repricing characteristics of the Group's balance sheet, the Group is generally exposed in a scenario of falling interest rate/yield.

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

Any shortage of liquidity in markets that are sources of funding for the Group could contribute to an increase in the Group's marginal borrowing costs. Similarly, any increase in interbank reference rates could also affect the value of certain assets that are subject to changes in applicable interest rates. The Group's interest/funding rate sensitivity position as at 31 December 2019, 2018 and 2017 was based on contractual re-pricing arrangements and is set out elsewhere in this Prospectus – see "*Risk Management—Principal Risks—Market Risk—Interest rate risk*".

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

The evolving developments surrounding the cessation of LIBOR quotations for various major currencies and the consequent adoption of alternative benchmark rates will impact the Group's financial products which use LIBOR as the reference rate. The Group believes that the main challenges to the transition will lie in dealing with the significant changes to documentation, valuation, models/infrastructure and operational processes, as well as the effects on legal, tax and accounting rules. The Group is monitoring the developments closely and is preparing transitional arrangements, including the introduction of 'fall back clauses' and aligning to recommendations from global and professional bodies. The Group established a committee to monitor updates on the transition process.

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

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

Any changes in the fair value of these securities, for example as a result of changing equity prices where the securities are quoted on an active market, has an impact on the Group's equity – see "*Risk Management—Principal Risks—Market Risk—Equity price risk*", which illustrates the Group's sensitivity to a 5 percent increase in relevant market indices as at 31 December 2019, 2018 and 2017. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility. The Group cannot predict the amount of realised or unrealised gain or loss for any future period, and variations from period to period, which may be significant, are not indicative of future performance. Gains on the Group's investment portfolio may not continue to contribute to net income at levels consistent with those from recent periods or at all.

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

As a financial intermediary, the Group is exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not, in all cases, protect the Group against such risks. See "*Risk Management—Principal Risks—Market Risk—Foreign exchange risk*", which illustrates the Group's sensitivity to a 5 percent strengthening in the exchange rate of a number of different currencies against the Kuwaiti dinar as at 31 December 2019, 2018 and 2017. As at 31 December 2019, 34 percent of the Group's gross portfolio of loans, advances and Islamic financing was denominated in currencies other than Kuwaiti dinar (namely, in order of largest exposure, U.S. dollars, Egyptian pounds, pounds Sterling and other currencies).

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

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

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts, both to manage its own interest rate risk on its interest bearing assets and liabilities and its foreign currency open positions and cash flows and to provide interest rate and foreign exchange rate solutions to its customers. These derivative contracts had a notional value of KD 6,146 million as at 30 September 2020 (31 December 2019: KD 6,754 million, 31 December 2018: KD 5,212 million) and the Group's derivatives portfolio had a net negative fair value of KD 215 million as at 30 September 2020 (31 December 2019: net negative fair value of KD 68 million, 31 December 2018: net positive fair value of KD 17 million). There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

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

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

Operational risks

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

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

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

Other risk management methods depend upon evaluation of information regarding the markets in which the Group operates, its clients or other matters that are publicly available or information otherwise accessible to it. This information may not be accurate, complete, up-to-date or properly evaluated in all cases. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on its business, financial condition and results of operations.

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

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

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

In recent years, the Kuwaiti Government has made a number of announcements regarding its intention to encourage a better balance of Kuwaitis and non-Kuwaiti nationals in the private-sector workforce. This process, known as "**Kuwaitisation**", involves the establishment of suggested ratios for the numbers of Kuwaiti nationals who should be employed by respective industries, with the Government's recommended policy for financial institutions being that 70 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 30 September 2020 was 71.5 per cent. If the Group is not able to meet or exceed the Kuwaiti Government's minimum threshold for Kuwaiti employees, it may be subject to certain penalties, including an exclusion from participation in certain Kuwaiti Government-related tender processes, the imposition of fines by the Ministry of Social Affairs or the imposition of administrative or corrective action by the CBK and other governmental authorities.

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

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

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

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

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

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

In addition, the Group's current information systems and technologies may not continue to be able to accommodate the Group's growth unless the Group continues to invest in upgrading its operational

systems, for example the Group has recently implemented a new datacentre on Tier 2 model (Uptime Institute) as well as several systems on an Active – Active resilience model in the new datacentre. Any failure by the Group to accommodate growth, or an increase in costs related to its information systems, would have a material adverse effect on the Group's business. The cost of improving or upgrading the Group's information systems and technologies may be substantial and the cost of maintaining such systems is likely to increase from its current level.

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

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

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

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

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

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

Management has identified the most significant judgments and estimates made by it in "*Financial Review*". These judgments and estimates include, for example, the determination of when certain assets (such as goodwill and investment in associates) may be impaired, the classification of financial assets, the determination of estimated credit losses and fair values of assets and liabilities.

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

Regulatory risks

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

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

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

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

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

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

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

RISKS RELATING TO THE REGION IN WHICH THE GROUP PRINCIPALLY OPERATES

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

The oil sector is the principal contributor to Kuwait's economy and oil revenues account for the majority of the Kuwaiti Government's total revenues and export earnings. According to the CSB, the oil sector (including refining) accounted for 60.0 per cent., 57.3 per cent. and 56.7 per cent. of Kuwait's GDP added in 2016, 2017 and 2018, respectively. The oil sector continues to be the main contributor to Kuwait's annual revenues, accounting for 89.3 per cent. of total Government revenues for the fiscal year ended 31 March 2020, according to the Kuwait Ministry of Finance. Accordingly, Kuwait's economy is significantly impacted by, and is dependent upon, international oil prices.

The OPEC Reference Basket price has fallen significantly since January 2020. In early March 2020, OPEC officials proposed a plan to the members of OPEC, including Kuwait, and other non-OPEC member countries, including Russia, to cut global production by 1.5 per cent. No agreement was reached, ending a three-year partnership between OPEC and major non-OPEC oil exporters. This also resulted in 'OPEC plus' failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. In March 2020, Saudi Arabia announced that it would raise oil output and discount its oil in April 2020. However, in early April 2020, 'OPEC plus' announced that it had reached an agreement to cut production by 9.7 million barrels a day, however this action failed to support sufficiently the oil market with prices falling in the days following that announcement. This agreement was extended further in July 2020. As a result of the above factors and the COVID-19 outbreak weakening the demand for oil, the OPEC Reference Basket price fell significantly. Furthermore, certain oil prices turned negative during April 2020 (with the West Texas Intermediate benchmark falling as low as minus U.S.\$37.63 a barrel), as weakened demand, as a result of the COVID-19 outbreak, led to buyers being paid to take oil due to storage capacity concerns. As at 30 September 2020, the OPEC Reference Basket price had risen to U.S.\$40.65.

Based on statistics published by the CSB, Kuwait's nominal GDP fell by 4.1 per cent. in 2016 before growing by 10.8 per cent. in 2017 and 16.0 per cent. in 2018 whilst its real GDP grew by 2.9 per cent in 2016, fell by 4.7 per cent. in 2017 and grew by 1.2 per cent. in 2018. Kuwait's current account balance was also impacted, recording a deficit of KD 1.5 billion in 2016 before recovering to surpluses of KD 2.9 billion in 2017, KD 6.0 billion in 2018 and 6.7 billion in 2019, according to the CBK. The Kuwaiti Government also recorded fiscal deficits in each fiscal year from and including 2015/16 to and including 2019/2020, according to the Kuwait Ministry of Finance. The official Kuwaiti budget for 2020/2021, as published by the Kuwait Ministry of Finance, projects a deficit of KD 14.1 billion, although this is based upon an oil price assumption of U.S.\$30 per barrel.

The impact on Kuwait's economy of prevailing low oil prices between mid-2014 and the end of 2016 also negatively impacted economic sectors which are, in part, dependent on the success of the oil and gas sector. For example, the Kuwaiti Government reduced government expenditure in each of 2015 and 2016 in light of the budgetary pressures caused by low or falling oil prices. The Kuwaiti Government also took steps to rationalise its subsidy framework, fully removing kerosene and diesel subsidies in January 2015, introducing new electricity and water tariff structures to reduce the related subsidies and partially removing gasoline subsidies in September 2016. The subsidy structure may be further reviewed in light of the drop in oil prices in 2020 due to the COVID-19 pandemic, and government spending overall could fall. In addition, ancillary industrial activities related to oil and gas exploration and production are also negatively affected by low oil prices and sectors that are dependent on government consumption may be adversely affected by lower levels of economic activity that may result from lower government revenue from oil and gas production. Additionally, although the CBK has the ability to adjust the components of the Kuwaiti Dinar Basket against which the Kuwaiti dinar is pegged, there can be no assurance that the CBK will maintain the Kuwaiti Dinar Basket at its current level, which could lead to higher inflation and negatively affect confidence in the Kuwaiti economy.

In general, international prices for crude oil are affected by many factors over which the Group has no control, including:

- economic and political developments in oil-producing regions, particularly in the Middle East (see "*Kuwait is located in a region that has been subject to ongoing political and security concerns*" below) as well as globally;

- global and regional supply and demand, and expectations regarding future supply and demand, for oil products, including the price and availability of new technologies such as renewable energy and unconventional oil and gas extraction methods;
- the impact of the COVID-19 pandemic and associated travel restrictions;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of local and international environmental regulations designed to reduce carbon emissions and/or climate change;
- other actions taken by major crude oil producing or consuming countries; and the attitude and sentiments of and actions by consumers generally globally towards products derived from or based on oil;
- prices and availability of alternative fuels as well as prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

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

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

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

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

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

In recent years, there has been social and political unrest and/or armed conflict in a range of countries in the MENA region, including the Arab Republic of Egypt, the People's Democratic Republic of Algeria, Libya, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the Republic of Yemen, the Republic of Iraq, the Syrian Arab Republic, Palestine, the Republic of Tunisia, the Sultanate of Oman and the Republic of Turkey, including the multinational conflict with the Islamic State of Iraq and the Levant ("ISIL"), also known as Daesh or ISIS. This unrest has ranged from public demonstrations to, in extreme cases, armed

conflict, the overthrow of existing leadership and governments and increased political uncertainty across the region. Certain of these recent and ongoing conflicts are a continuation of the significant political and military upheaval experienced since early 2011, commonly referred to as the "Arab Spring", which gave rise to several instances of regime change and increased political uncertainty in the MENA region. These situations have caused significant disruption to the economies of the affected countries and have had a destabilising effect on international oil and gas prices.

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

Furthermore, other world events could have an impact on the political and security situation in Kuwait and the wider MENA region. On 20 January 2017, Donald J. Trump was inaugurated as the 45th President of the United States ("**President Trump**"). Since the 1990 Gulf War, Kuwait and the United States have enjoyed close economic and strategic ties. However, President Trump's foreign policy objectives, including trade, immigration, military and economic support of historic partners, and the U.S. relationship with Iran, have remained somewhat opaque making his stance towards a continuing relationship with Kuwait and the wider region unclear. On 8 May 2018, the United States announced its withdrawal from the comprehensive agreement between the U.N. Security Council's five permanent members plus Germany and Iran which was reached on July 2015, reinstating U.S. nuclear sanctions on the Iranian regime. The United States also announced that it would not renew exceptional waivers for importing Iranian oil for several oil-importing countries, effective from May 2019. Most recently, on 2 January 2020 the United States carried out a military strike which killed a senior Iranian military commander. As a result of this military strike Iran launched missiles at a US base in Iraq. While President Trump has stated that he intends to pursue a non-interventionist agenda that would increasingly focus U.S. investment on domestic matters, he has also advocated for expanding oil drilling operations and pledged support of American troops being deployed in the region to confront ISIL (Daesh). In November 2020, Joe Biden was elected as the 46th President of the United States on a platform of reversing many of President Trump's policies. Joe Biden is expected to be inaugurated as President of the United States in January 2021. However, a shift in the relationship between Kuwait and the United States or changing U.S. political priorities in the region could have a material adverse effect on Kuwait's economic, political or financial condition. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations and thereby affect the Issuer's or the Bank's ability to perform its obligations in respect of the Notes.

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

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

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

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

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

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

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

The Kuwaiti Government is under no obligation to support the Group

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

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

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

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

Kuwait may introduce corporate income tax

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

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

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

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

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

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

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

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

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

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

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE RISKS ASSOCIATED WITH THE NOTES

The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Notes are subordinated and unsecured obligations

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

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

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

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 2 Capital by the Bank as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 2 Capital of the Bank can be issued that ranks senior to the Notes, there is no restriction on the Bank (in its capacity as the Guarantor or otherwise) incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Notes and the obligations of the Bank under the Loan or the Subordinated Guarantee. The issue of or the creation of any such Senior Obligations may reduce the amount recoverable by holders of the Notes on a winding-up or liquidation of the Bank. Accordingly, in the winding-up or liquidation of the Bank and after payment of the claims of creditors in respect of the Bank's Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Notes. See also "*The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Notes are subordinated and unsecured obligations*".

Redemption and maturity

Holders of the Notes have no ability to require the Issuer to redeem their Notes prior to the Maturity Date other than in the limited circumstances described in Condition 12 (*Enforcement Event*). The Issuer (acting on the instructions of the Guarantor) has the option to redeem the Notes prior to the Maturity Date in certain circumstances as more particularly described in Condition 7 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the holders of the Notes have no ability to cash in their investment prior to the Maturity Date, except:

- (a) if the Issuer exercises its rights to redeem the Notes prior to the Maturity Date in accordance with Condition 7 (*Redemption and Variation*);
- (b) in the limited circumstances described in Condition 12 (*Enforcement Event*) (subject to the subordination provisions contained in the Conditions and the Subordinated Guarantee); or
- (c) by selling their Notes.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Notes may limit their market value, which is unlikely to rise substantially above the price at which the Notes can be redeemed. There can be no assurance that holders of the Notes will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Notes. Further, there can be no assurance that a holder of Notes will receive the full amount of their investment if they sell their Notes or upon exercising their remedies pursuant to Condition 12 (*Enforcement Event*).

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

If a Non-Viability Event occurs at any time, the principal amount of the Notes then outstanding will be Written-down in whole or, in part on a *pro rata* basis pursuant to Condition 8 (*Write-down at the Point of Non-Viability*). See "*The circumstances triggering a Write-down are unpredictable*". Pursuant to a Write-down, the Notes will be cancelled (in the case of a Write-down in whole) or Written-down in part on a *pro rata* basis (in the case of a Write-down in part) and all rights of any Noteholder for payment of any amounts under or in respect of the Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event) shall, as the case may be, be cancelled or Written-down *pro rata* among the Noteholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares and any Tier 1 Capital of the Guarantor should absorb losses prior to the Notes, a Write-down in full or in part of the Notes could occur prior to the ordinary shares and/or any Tier 1 Capital of the Guarantor absorbing losses in full or even in part. A Write-down shall not constitute an Enforcement Event. As a result, in the case of a Write-down, Noteholders may lose the entire amount or, as the case may be, a material amount, of their investment in the Notes. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 8 (*Write-down*

at the Point of Non-Viability) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

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

Furthermore, upon the occurrence of any Write-down in part pursuant to Condition 8 (*Write-down at the Point of Non-Viability*), Interest Payment Amounts will accrue on the reduced principal amount of the Notes. Also, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event or any redemption at the option of the Issuer pursuant to Condition 7 (*Redemption and Variation*) will be by reference to such reduced principal amount of the Notes.

The Guarantor's current and future Junior Obligations or *Pari Passu* Obligations might not include write-down or similar features comparable to those of the Notes. As a result, it is possible that the Notes will be subject to a Write-down, while certain Junior Obligations and/or *Pari Passu* Obligations remain outstanding without such a reduction (or with a lesser reduction) and continue to receive payments and, as such, Noteholders may be subject to losses ahead of holders of certain Junior Obligations and/or *Pari Passu* Obligations.

The circumstances triggering a Write-down are unpredictable

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

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

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

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

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

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Issuer may, subject as provided in Condition 7.3 (*Redemption or Variation for Regulatory Reasons*) or Condition 7.4 (*Redemption or Variation for Taxation Reasons*) (as the case may be) at any time and without the need for any consent of the Noteholders, either redeem or vary the terms of the Notes such that they become or remain (as appropriate) Qualifying Tier 2 Instruments.

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan is excluded (in full or in part) from the consolidated Tier 2 Capital of the Bank, or (ii) the outstanding principal amount of the Notes is excluded (in full or in part) from the consolidated Tier 2 Capital of the Bank (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

A Tax Event means that the Issuer or the Bank has, will or would (as applicable) become required to pay additional amounts, as a result of any change in, or amendment to the laws, published practice or regulations of the United Arab Emirates (including the DIFC) or Kuwait or any political subdivision or authority thereof or therein having power to tax, or in each case as a result of any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent

jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after the Issue Date (and such requirement cannot be avoided by the Bank taking reasonable measures available to it).

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

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

The Notes may be subject to early redemption; redemptions conditional

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

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

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

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

Trading in the clearing systems

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

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

The Notes will be represented by the Global Certificate. Except in the limited circumstances described in the Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate held through it. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing

systems and their respective participants and the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Notes. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate. Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

Resettable fixed rate instruments have a market risk

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

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Notes will develop or, if it does develop, that it will provide the holders of the Notes with liquidity of investment or that it will continue for the tenor of the Notes. The Notes generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are subordinated (see "*The payment obligations of the Bank under the Loan and the Subordinated Guarantee and of the Issuer under the Notes are subordinated and unsecured obligations*").

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

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

Taxation risks on payments

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

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

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

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

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

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

In addition, neither Article 150 (bis) nor the Administrative Resolution addressed the issue of whether or not there remains an obligation (as described under "*Taxation — Kuwait*") to deduct 5 per cent. of the amount of any payments made by the Guarantor to the Issuer or directly to the holders of the Notes. Accordingly, there is a possibility that the deduction of the 5 per cent. obligation may be applied in certain circumstances, pending resolution of their tax position. The deducted 5 per cent. would be released by the Guarantor upon presentation to it by the Issuer (or, where applicable, by the holders of the Notes) of a tax clearance certificate from the DIT. In any event, any deducted amounts would be required to be grossed up by the Guarantor pursuant to the provisions of the Conditions (see Condition 9 (*Taxation*)) and accordingly, in practice, a holder would not need to present such a tax clearance certificate.

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

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

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

Value Added Tax

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

Enforcement under Kuwaiti Law

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

Notwithstanding that the provisions of the Subordinated Guarantee relating to the ranking of the Guarantor's payment obligations are expressed to be governed by English law, in the event of the Guarantor's

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

Enforceability of the Guarantor's obligations under the Subordinated Guarantee

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

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

There is a risk that the Kuwaiti Courts will assume jurisdiction

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

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

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

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

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

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

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

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

There have not been many occasions in which the Kuwaiti Courts have been asked to consider the enforcement of foreign arbitral awards and so (notwithstanding that on those occasions when they have been asked to do so they have shown that they will follow the provisions of the Code and enforce an arbitral award) there is not a large body of decided cases in which the practical implications of complying with Article 199 of the Code have been analysed.

Credit ratings may not reflect all risks

In addition to the rating of Baa1 assigned by Moody's, one or more independent credit rating agencies may assign credit ratings to the Notes on an unsolicited basis. Any ratings of either the Group or the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant. Nevertheless, real or anticipated changes in the Group's credit ratings or the ratings of the Notes generally will affect the market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the interim condensed consolidated financial information of the Group as at and for the nine months ended 30 September 2020 together with the review report thereon and the notes thereto (available at: <https://www.nbk.com/dam/jcr:47d0d105-7bb3-4da4-abf1-5db17f5cbf69/NBK-FS-30-September-2020-English.pdf>);
- (b) the consolidated financial statements of the Group as at and for the year ended 31 December 2019 together with the audit report thereon and the notes thereto (available at: <https://www.nbk.com/dam/jcr:f752708f-2515-4a9c-91c3-42ed969f84a9/NBK-Financialsasof31122019-English-signed.pdf>); and
- (c) the consolidated financial statements of the Group as at and for the year ended 31 December 2018 together with the audit report thereon and the notes thereto (available at: <https://www.nbk.com/dam/jcr:746e31d5-2b7c-46af-ad01-1a54994b853b/NBK-FS-31-Dec-2018-English-Signed.pdf>).

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

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

OVERVIEW OF THE ISSUANCE

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

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

Issuer:	NBK Tier 2 Limited
Issuer Legal Entity Identifier (LEI):	549300GS015OCXR89U13
Ownership of the Issuer:	The authorised share capital of the Issuer is U.S.\$100 consisting of 100 shares of U.S.\$1 nominal value each, of which all 100 shares are fully paid up and issued. The Issuer is a wholly-owned subsidiary of the Guarantor.
Administration of the Issuer:	The affairs of the Issuer are managed by Maples Fund Services (Middle East) Limited, a corporate services provider regulated by the Dubai Financial Services Authority who will provide, <i>inter alia</i> , corporate administrative services and director services for and on behalf of the Issuer pursuant to the corporate services agreement dated 18 October 2020 between the Issuer and Maples Fund Services (Middle East) Limited. Maples Fund Services (Middle East) Limited's registered office is Unit C1407, Level 14, Burj Daman, Dubai International Financial Centre, P.O. Box 506734, Dubai, UAE.
Guarantor:	National Bank of Kuwait S.A.K.P.
Description:	U.S.\$300,000,000 2.500 per cent. Resetting Subordinated Tier 2 Notes due 2030.
Global Coordinators:	Citigroup Global Markets Limited and Watani Investment Company K.S.C.C.
Joint Lead Managers:	Citigroup Global Markets Limited and Watani Investment Company K.S.C.C.
Fiscal Agent, Calculation Agent and Transfer Agent:	Citibank N.A, London Branch.
Registrar:	Citigroup Global Markets Europe AG.
Issue Date:	24 November 2020.
Issue Price:	100 per cent. of the aggregate principal amount of the Notes.
Interest Payment Dates:	Interest will be payable semi-annually in arrear on 24 May and 24 November in every year, commencing on 24 May 2021.
Interest Payment Amounts:	Subject to any redemption as provided for in Condition 7, interest will be payable at the rate of 2.500 per cent. per annum up to but excluding the Reset Date and, thereafter, at the Reset Interest Rate, calculated in accordance with Condition 5.3 (<i>Reset Interest Rate</i>).
Maturity Date:	24 November 2030.
Form of Notes:	The Notes will be issued in registered form (to non-U.S. persons in offshore transactions within the meaning of Regulation S under the U.S. Securities Act of 1933, as amended (the " Securities Act ")) and will initially be represented by the global certificate (the " Global Certificate ") which will be registered in the name of a nominee for, and will be deposited with a common depository for, Euroclear Bank SA/NV (" Euroclear ") and Clearstream Banking S.A. (" Clearstream, Luxembourg "). Beneficial interests in the

	Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Individual certificates evidencing holding of Notes will be issued in exchange for interests in the Global Certificate only in limited circumstances.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Denomination:	The Notes will be issued in registered form in principal amounts of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.
Status of the Notes:	The Notes constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank <i>pari passu</i> and without preference among themselves. The payment obligations of the Issuer under the Notes will rank (a) junior to all Senior Obligations of the Issuer, (b) <i>pari passu</i> with all <i>Pari Passu</i> Obligations of the Issuer, and (c) senior to all Junior Obligations of the Issuer.
Subordinated Guarantee of the Notes:	The obligations of the Guarantor under the Subordinated Guarantee constitute direct, unconditional, subordinated and unsecured obligations of the Guarantor. The payment obligations of the Guarantor in respect of the Subordinated Guarantee will rank (a) junior to all Senior Obligations of the Guarantor, (b) <i>pari passu</i> with all <i>Pari Passu</i> Obligations of the Guarantor, and (c) senior to all Junior Obligations of the Guarantor.
Redemption and Variation:	<p>The Issuer (acting on the instructions of the Guarantor) shall only have the right to redeem, purchase or vary the Notes prior to the Maturity Date in accordance with the provisions of Condition 7 (<i>Redemption and Variation</i>) including, at the option of the Issuer, for taxation reasons or for regulatory reasons (each as described below).</p> <p>Pursuant to Condition 7.2 (<i>Redemption at the Option of the Issuer</i>), the Issuer (acting on the instructions of the Guarantor) may, on the Reset Date or on any Interest Payment Date thereafter, on giving not less than 10 nor more than 30 days' notice to the Noteholders (which notice, subject to Condition 7.8, shall be irrevocable), redeem all but not some only of the Notes at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption.</p> <p>Upon the occurrence and continuation of a Capital Event, the Notes may be (i) redeemed at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption or (ii) varied, in each case subject to certain conditions being satisfied, including the prior approval of the Financial Regulator (unless no longer required by the Financial Regulator) at the option of the Issuer (acting on the instructions of the Guarantor) in whole, but not in part, on any date, on giving not less than 10 nor more than 30 days' notice to the Noteholders (which notice, subject to Condition 7.8, shall be irrevocable). See Condition 7.3 (<i>Redemption or Variation for Regulatory Reasons</i>).</p> <p>Upon the occurrence of a Tax Event which cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it, the Notes may be (i) redeemed at their outstanding principal amount, together with interest accrued but unpaid to but excluding the date fixed for redemption or (ii) varied, in each case subject to certain conditions being satisfied, including the prior approval of the Financial Regulator (unless no longer required by the Financial Regulator), at the</p>

option of the Issuer (acting on the instructions of the Guarantor) in whole, but not in part, on any date, on giving not less than 10 nor more than 30 days' notice to the Noteholders (which notice shall, subject to Condition 7.8, be irrevocable). See Condition 7.4 (*Redemption or Variation for Taxation Reasons*).

Any redemption or variation of the Notes is subject to the conditions described in Condition 7.1 (*Redemption at Maturity and Conditions for Redemption and Variation*).

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

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

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

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

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

Ratings: The Guarantor has long-term ratings of A by S&P, A1 by Moody's and AA- by Fitch, each with a stable outlook. The Notes have been assigned a rating of Baa1 by Moody's.

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

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

Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin (" Euronext Dublin ") for the Notes to be admitted to its official list and to trading on the regulated market of Euronext Dublin.
Governing Law and Dispute Resolution:	<p>The Notes (except for Condition 3.1 (<i>Status of the Notes and Subordination</i>)) and any non-contractual obligations arising out of or in connection with them will be governed by, and shall be construed in accordance with, English law. Condition 3.1 (<i>Status of the Notes and Subordination</i>) will be governed by the laws of the Dubai International Financial Centre.</p> <p>The Agency Agreement and the Subordinated Guarantee and any non-contractual obligations arising out of, or in connection with them will be governed by, and shall be construed in accordance with, English law. In respect of any dispute, claim, difference or controversy under the Notes, the Agency Agreement and the Subordinated Guarantee, the Issuer has consented to arbitration in accordance with the Arbitration Rules of the LCIA.</p>
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the United Kingdom, the European Economic Area, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Saudi Arabia, Kingdom of Bahrain and the State of Qatar and such other restrictions as may be required in connection with the offering and sale of the Notes. See " <i>SUBSCRIPTION AND SALE</i> ".
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes and risks relating to the structure of the Notes. See " <i>Risk Factors</i> ".

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates in definitive form issued in respect of the Notes. For so long as the Notes are represented by the Global Certificate, these Conditions shall be modified by the terms of the Global Certificate (see "The Global Certificate" in this Prospectus).

The U.S.\$300,000,000 2.500 percent. Resetting Subordinated Tier 2 Notes due 2030 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of NBK Tier 2 Limited (the "**Issuer**") are issued subject to and with the benefit of an agency agreement dated the Issue Date (such agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") made between the Issuer, National Bank of Kuwait S.A.K.P. (the "**Guarantor**") as guarantor, Citigroup Global Markets Europe AG as registrar (the "**Registrar**") and Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**" and, together with any other paying agents named in the Agency Agreement, the "**Paying Agents**"), as transfer agent (the "**Transfer Agent**") and as calculation agent (the "**Calculation Agent**") (together with the Fiscal Agent, the Registrar, the Transfer Agent and any other Paying Agents, the "**Agents**"). Copies of the Agency Agreement, the Subordinated Guarantee (as defined below) and the On-Loan Agreement (as defined below) are available for inspection and/or collection during normal business hours by the holders of the Notes (the "**Noteholders**") at the specified office of the Fiscal Agent.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a U.S.\$300,000,000 subordinated loan (the "**Loan**") to the Guarantor. The Issuer and the Guarantor have recorded the terms of the Loan in a loan agreement (the "**On-Loan Agreement**") dated the Issue Date between the Issuer and the Guarantor.

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

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

1. **Form, Denomination and Title**

1.1 **Form and Denomination**

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

The Notes are not issuable in bearer form.

1.2 **Title**

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

2. Transfers of Notes and issue of Certificates

2.1 Transfers

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

2.2 Delivery of new Certificates

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

Except in the limited circumstances described in this Prospectus (see "The Global Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.

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

2.3 Formalities free of charge

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

2.4 Closed Periods

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

2.5 Regulations

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

3. Status of the Notes, Subordination and Limited Recourse

3.1 Status of the Notes and Subordination

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

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

Each holder of a Note unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any

jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations under the Notes.

3.2 **Limited Recourse and Agreement of Noteholders**

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

The payments received by the Issuer from the Guarantor (the "**Relevant Assets**") are the sole source of payments on the Notes. The net proceeds of the realisation of, or enforcement with respect to, the Relevant Assets may not be sufficient to make all payments due in respect of the Notes. Noteholders, by subscribing for or acquiring the Notes, acknowledge and agree that Maples Fund Services (Middle East) Limited has been appointed as the corporate services provider in relation to the Issuer (in such capacity the "**Corporate Services Provider**"), and that the directors of the Issuer are employees, directors and/or officers of the Corporate Services Provider. Notwithstanding anything contrary contained in these Conditions or the Agency Agreement or any other transaction document entered into by the Issuer in relation to or in connection with the Notes (together with the Agency Agreement, the "**Transaction Documents**"), the Noteholders each agree that no recourse (whether under these Conditions or under any other Transaction Document) shall be had against any of (i) the Corporate Services Provider or its affiliates or (ii) the directors and/or secretary of the Issuer or their assets. The Noteholders further agree not to pursue any action or make any claim or demand or commence any proceedings against the Corporate Services Provider, its successors or assigns, directors, officers or employees present and future, or the directors and/or secretary of the Issuer as a result of the performance of the functions and services provided by the Corporate Services Provider and the directors and/or secretary of the Issuer pursuant to the corporate services agreement dated 18 October 2020 between the Issuer and the Corporate Services Provider.

4. **Guarantee and Issuer Covenants**

4.1 **Guarantee**

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

4.2 **Status of the Guarantee and Subordination**

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

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

4.3 **Other Issues**

The Guarantor has agreed in the Subordinated Guarantee that, so long as any of the Notes remain outstanding, the Guarantor will not, and will procure that neither the Issuer nor any of its other Subsidiaries will, issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 2 Capital of the Guarantor if claims in respect of such securities, guarantee or

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

4.4 Issuer Covenants

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

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

5. Interest

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount:

- (a) from and including the Issue Date to but excluding 24 November 2025 (the "**Reset Date**") at the rate of 2.500 per cent. per annum (the "**Initial Interest Rate**") or, thereafter, at the Reset Interest Rate;
- (b) payable semi-annually in arrear on 24 May and 24 November in each year (each an "**Interest Payment Date**"); and
- (c) the first interest payment (for the period from and including the Issue Date to but excluding 24 May 2021 (the "**First Interest Payment Date**") and amounting to U.S.\$12.50 per U.S.\$1,000 in principal amount of Notes) shall be made on the First Interest Payment Date.

5.2 Calculation of broken interest amount

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

5.3 Reset Interest Rate

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

5.4 Publication of Reset Interest Rate

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

5.5 Notifications, etc. to be final

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

6. Payments

6.1 Payments in respect of the Notes

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

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

Whilst the Notes are represented by the Global Certificate and the Global Certificate is registered in the name of a nominee for Euroclear and Clearstream, Luxembourg, the record date will instead be close of business on the business day (being for this purpose a day on which each clearing system for which the Global Certificate is being held is open for business) before the relevant due date (see "The Global Certificate" in this Prospectus).

6.2 Payments subject to Applicable Laws

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

6.3 No Commissions

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

6.4 Payment on Business Days

Where payment is to be made by credit or transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated on the Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

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

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

6.5 Partial Payments

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

6.6 Agents

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

- (a) there will at all times be a Fiscal Agent, a Registrar and a Calculation Agent; and
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a

specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

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

7. Redemption and Variation

7.1 Redemption at Maturity and Conditions for Redemption and Variation

Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes at their principal amount on 24 November 2030 (the "**Maturity Date**"). The Issuer (acting on the instructions of the Guarantor) shall only have the right to redeem, purchase or vary the Notes prior to the Maturity Date in accordance with the following provisions of this Condition 7.

The redemption of the Notes or variation of the Conditions prior to the Maturity Date, in each case pursuant to this Condition 7, is subject to the following conditions:

- (a) the Guarantor having obtained the prior approval of the Financial Regulator;
- (b) the requirement that at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Guarantor is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Guarantor by the Financial Regulator); and

(in the case of Conditions 7.3 or 7.4 only) the requirement that the circumstance that entitles the Issuer to exercise its right of redemption or variation is a change of law, published practice or regulation (including in the case of Condition 7.3, Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 7.4, of a Relevant Jurisdiction or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after the Issue Date,

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

7.2 Redemption at the Option of the Issuer

Subject to Condition 7.1, the Issuer (acting on the instructions of the Guarantor) may, having given not less than 10 nor more than 30 days' notice to the Noteholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Notes on the Reset Date or on any Interest Payment Date thereafter at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption.

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

7.3 Redemption or Variation for Regulatory Reasons

Subject to Condition 7.1, the Issuer (acting on the instructions of the Guarantor) may, if a Capital Event has occurred and is continuing, having given not less than 10 nor more than 30 days' notice to the Noteholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Notes at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption; or (ii) vary the terms of the Notes so that they become or, as appropriate, remain, Qualifying Tier 2 Instruments, in each case without any requirement for consent or approval of the holders of the Notes.

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

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.3, the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that: (A) a Capital Event has occurred and is continuing as at the date of the certificate; (B) all other conditions precedent to the redemption or variation of the Notes pursuant to Condition 7.1 have been satisfied; and (C) in the case of a variation only, the Guarantor shall certify that the varied Notes are Qualifying Tier 2 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 2 Instruments, and the Fiscal Agent shall be entitled to accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders.

A "**Capital Event**" is deemed to have occurred if the Guarantor is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan is excluded (in full or in part) from the consolidated Tier 2 Capital of the Guarantor; or (ii) the outstanding principal amount of the Notes is excluded (in full or in part) from the consolidated Tier 2 Capital of the Guarantor (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

7.4 Redemption or Variation for Taxation Reasons

Subject to Condition 7.1, if a Tax Event has occurred, and that Tax Event cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it, the Issuer (acting on the instructions of the Guarantor) may at its option, having given not less than 10 nor more than 30 days' notice to the Noteholders (in accordance with Condition 14) and the Fiscal Agent (which notice, subject to Condition 7.8, shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Notes at their outstanding principal amount together with interest accrued but unpaid to but excluding the date of redemption; or (ii) vary the terms of the Notes provided that they become or, as appropriate, remain, Qualifying Tier 2 Instruments, in each case without any requirement for consent or approval of the holders of the Notes.

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

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.4, the Issuer shall deliver to the Fiscal Agent: (A) a copy of an opinion of a recognised independent tax adviser to the effect that a Tax Event has occurred; and (B) a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that (i) the relevant Tax Event has occurred and cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it; (ii) that all other conditions precedent to the redemption or variation of the Notes pursuant to Condition 7.1 and this Condition 7.4 (other than the notice described in the first paragraph of this Condition 7.4) have been satisfied; and (iii) in the case of a variation only, the Guarantor shall certify that the varied Notes are Qualifying Tier 2 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 2 Instruments, and the Fiscal Agent shall be entitled to accept the opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders.

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

- (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws, published practice or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in

the case of application or official interpretation, is announced) on or after the Issue Date;
or

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

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

7.5 Taxes upon Variation

In the event of a variation in accordance with Conditions 7.3 or 7.4, the Issuer will not be obliged to pay and will not pay any liability of any Noteholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Notes **provided that** they become or, as appropriate, remain, Qualifying Tier 2 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 2 Instruments by such Noteholder.

7.6 Purchases

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

7.7 Cancellations

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

7.8 No redemption following delivery of a Non-Viability Notice

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

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

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

Following any Write-down of the Notes in accordance with this Condition 8: (a) references in these Conditions to the "**principal amount**" or "**outstanding principal amount**" of the Notes shall be construed accordingly; (b) the principal amounts so written down (the "**Write-down Amount**") will

be cancelled and interest will continue to accrue only on the outstanding principal amount following such reduction, as described herein; and (c) the Write-down Amount may not be restored under any circumstances, including where the relevant Non-Viability Event is no longer continuing.

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

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

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

9. Taxation

9.1 Payment without Withholding

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

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

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

9.2 Interpretation

In these Conditions:

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

9.3 **Additional Amounts**

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

10. **On-Loan Agreement**

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

11. **Prescription**

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

12. **Enforcement Event**

12.1 **Enforcement Event**

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

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

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

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

A Noteholder may at its discretion institute such steps, actions or proceedings against, subject to Condition 3.2, the Issuer or the Guarantor to enforce any other term or condition binding on the Issuer (including, without limitation, any breach of the provisions of Condition 4.4) or the Guarantor. However, in no event shall the Issuer or the Guarantor, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

12.2 No Other Remedies

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

13. Replacement of Certificates

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

14. Notices

14.1 Notices to the Noteholders

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

14.2 Notices from the Noteholders

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

15. Meetings of Noteholders and Modification

15.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the Subordinated Guarantee or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate outstanding principal amount of the Notes. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. of the aggregate principal amount of the Notes for the time being outstanding or, at any adjourned meeting, one or more persons present whatever the principal

amount of the Notes so held or represented, except that a Reserved Matter may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons holding or representing not less than two-thirds or, at any adjourned such meeting, not less than one-third of the aggregate outstanding principal amount of the Notes form a quorum. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting. This Condition 15.1 is without prejudice to Conditions 7.3 and 7.4.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate outstanding principal amount of the Notes will take effect as if it were an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

15.2 Modification

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

16. Further Issues

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

17. Currency Indemnity

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

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

18. Governing Law and Dispute Resolution

18.1 Governing Law

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

18.2 Arbitration

Any dispute, claim, difference or controversy arising out of, relating to, or having any connection with the Notes, these Conditions, the Agency Agreement or the Subordinated Guarantee (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of the nullity of any of them and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "**Rules**") of the London Court of International Arbitration (the "**LCIA**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

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

18.3 Appointment of Process Agent

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

18.4 Waiver of Immunity

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

18.5 Other Documents

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

19. Contracts (Rights of Third Parties) Act 1999

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

20. Definitions

In these Conditions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"**Interest Payment Amount**" means the amount of interest due on each Note on an Interest Payment Date.

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

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

"**Issue Date**" means 24 November 2020.

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

"**Margin**" means 2.108 per cent. per annum.

"**Maturity Date**" has the meaning given to it in Condition 7.1.

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

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

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

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

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

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

"**Qualifying Tier 2 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) issued directly or indirectly by the Guarantor that:

- (a) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) consolidated Tier 2 Capital of the Guarantor;
- (b) have terms and conditions not materially less favourable to a Noteholder than the Notes (as reasonably determined by the Guarantor (**provided that** in making this determination the Guarantor is not required to take into account the tax treatment of the new instrument in the hands of all or any holders of the Notes, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of an Authorised Signatory of the Guarantor shall have been delivered to the Fiscal Agent prior to the variation of the terms of the instruments);
- (c) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking) obligations of the Guarantor;
- (d) rank, on a winding up of the Guarantor, at least *pari passu* with the obligations of the Guarantor in respect of the Subordinated Guarantee as specified in Condition 4.2;

- (e) have at least the same outstanding principal amount and the same interest payment or distribution dates as the Notes and at least equal interest or distribution rate or rate of return as the Notes;
- (f) are listed on the same stock exchange as the Notes (if the Notes were so listed immediately prior to the variation);
- (g) have the same claim to accrued but unpaid distributions;
- (h) (where the instruments are varied prior to the Reset Date) have the same Reset Date as the Notes;
- (i) have the same optional redemption dates as the Notes, save that any right to redeem the Notes prior to the fifth anniversary of the Issue Date may be disappplied if such right to redeem would cause a Capital Event; and
- (j) preserve the obligations of the Issuer and the Guarantor (as applicable) as to amounts payable upon any redemption and the ranking of any claims in a winding-up or dissolution of the Issuer or the Guarantor (as applicable) under the Notes, and which may include such technical changes as necessary to reflect the requirements of Tier 2 Capital under the Capital Regulations then applicable to the Guarantor (including, without limitation, such technical changes as may be required in the adoption and implementation of Basel III).

"Relevant Five-Year Reset Rate" means, in respect of the Reset Period: (i) a rate (expressed as a decimal) determined on the U.S. Securities Determination Date to be the per annum rate equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years and trading in the public securities markets; or (ii) if there is no such published U.S. Treasury security with a maturity of five years and trading in the public securities markets, then the rate will be determined on the U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities market: (A) one maturing as close as possible to, but earlier than, the Maturity Date; and (B) the other maturity as close as possible to, but later than the Maturity Date, in each case as published in the most recent H.15 (519). If the Issuer cannot procure the determination of the Relevant Five-Year Reset Rate on the U.S. Securities Determination Date pursuant to the methods described in (i) and (ii) above, then the Relevant Five-Year Reset Rate will be 0.392 per cent.

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

"Reset Date" has the meaning given to it in Condition 5.1.

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

"Reset Period" means the period from and including the Reset Date to but excluding the Maturity Date.

"Senior Obligations" means all unsubordinated payment obligations of the Issuer or the Guarantor, as the case may be (including, in the case of the Guarantor, payment obligations to its depositors), and all subordinated payment obligations (if any) of the Issuer or the Guarantor, as the case may be, except *Pari Passu* Obligations and Junior Obligations.

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

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

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

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

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

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

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

"**U.S. Securities Determination Date**" means the second U.S. Government Securities Business Day before the commencement of the Reset Period.

"**Write-down**" means:

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

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

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

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

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Notes whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.

Form of the Notes

The Notes will be in registered form and will be issued outside the United States to persons that are not U.S. persons (as defined in and in reliance on Regulation S of the Securities Act).

The Notes will be represented by beneficial interests in a global certificate in registered form (the "**Global Certificate**"). The Global Certificate will be deposited with a common depository for Euroclear and Clearstream and will be registered in the name of a nominee for the common depository. Persons holding ownership interests in the Global Certificate will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of Individual Certificates in fully registered form.

Holders

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, as the case may be, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account by any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "holders of the Notes" and references to "holding of Notes" and to "holder of Notes" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer and the Guarantor, solely in the registered holder of the Global Certificate in accordance with and subject to the terms of the Global Certificate. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the registered holder of the Global Certificate.

Cancellation

Cancellation of any Note represented by the Global Certificate will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders maintained by the Registrar.

Payments

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

Payments on business days

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

Payment Record Date

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

Notices

Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Global Certificate and such Global Certificate is deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Write-down

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

Registration of Title

Title to the Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement.

Transfers

Transfers of book-entry interests in the Notes represented by the Global Certificate will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

Exchange for Individual Certificates

Interests in the Global Certificate will be exchangeable (free of charge to the holder), in whole but not in part, for Individual Certificates only upon the occurrence of an Exchange Event. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 (*Notices*) if an Exchange Event occurs. For these purposes, "**Exchange Event**" means (a) that the Issuer has been notified that Euroclear or Clearstream, Luxembourg has been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so or (b) an Enforcement Event occurs. In the event of the occurrence of an Exchange Event, any of the Issuer or Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in the Global Certificate) may give notice to the Registrar requesting exchange.

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

In this Prospectus, "**Individual Certificate**" means a Note in definitive registered form issued by the Issuer in accordance with the provisions of the Agency Agreement in exchange for the Global Certificate, such Note substantially in the form set out in the Schedules to the Agency Agreement.

USE OF PROCEEDS

The estimated net proceeds from the issue of the Notes, after deduction of commissions, fees and estimated expenses, will be U.S.\$299,700,000. The proceeds from the issue of the Notes will be used by the Issuer to finance the Loan to the Bank pursuant to the On-Loan Agreement in a form which meets or exceeds the requirements of Tier 2 Capital under the Capital Regulations, which will be used by the Bank to increase its Tier 2 Capital for the purpose of increasing its capital adequacy and for its general corporate purposes.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in the DIFC on 27 September 2020 as a prescribed company under the Companies Law, DIFC Law No. 5 of 2018 and the Prescribed Company Regulations 2019 with registered number 4097.

Registered office

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

Business of the Issuer

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

Administration

Maples Fund Services (Middle East) Limited acts as the corporate service provider of the Issuer (in such capacity, the "**Corporate Service Provider**"). The office of the Corporate Service Provider serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement dated 18 October 2020 entered into between the Issuer and the Corporate Service Provider (the "**Corporate Services Agreement**"), the Corporate Service Provider has agreed to perform in the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Service Provider have also entered into a registered office and company secretarial services agreement (the "**Registered Office Agreement**") for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Service Provider will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

The terms of the Corporate Services Agreement and Registered Office Agreement provide that either the Issuer or the Corporate Service Provider may terminate such agreements upon the occurrence of certain stated events, including any breach by the other party of its obligations under such agreements. In addition, the Corporate Services Agreement and the Registered Office Agreement provide that either party shall be entitled to terminate such agreements by giving at least one month's notice in writing to the other party with a copy to the DIFC Registrar of Companies. Furthermore, the Corporate Service Provider has the right to terminate such agreements in the event that there is a change in the shareholding of the Issuer or the Issuer has breached, or is unable to satisfy, any of its obligations under the Capital Securities or the Agency Agreement.

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

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

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

Directors

The directors of the Issuer are:

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

Name	Principal Occupation
Sedef Kufrevi.....	Vice President at Maples Fund Services (Middle East) Limited

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

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

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

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

Secretary

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

Share capital

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

SELECTED CONSOLIDATED FINANCIAL DATA

The financial information in this section should be read in conjunction with "Financial Review", the Financial Statements and the related notes thereto. Financial information as at, and for the nine months ended, 30 September 2020 and 2019 is unaudited. The financial information in this section as at and for (i) the years ended 31 December 2019 and 31 December 2018 has been derived from the 2019 Financial Statements; (ii) the year ended 31 December 2017 has been derived from the comparative data for the year ended 31 December 2017 included in the 2018 Financial Statements; and (iii) the nine month periods ended 30 September 2020 and 30 September 2019 has been derived from the Interim Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

	Nine months ended 30 September		Year ended 31 December		
	2020	2019	2019	2018	2017
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(KD thousands)</i>		
Interest income	590,001	740,777	986,526	897,218	742,616
Interest expense	221,950	314,924	(421,618)	(330,882)	(223,762)
Net interest income	368,051	425,853	564,908	566,336	518,854
Murabaha and other Islamic financing income	169,291	155,339	211,317	186,089	155,903
Finance cost and Distribution to depositors	64,747	64,215	(87,001)	(61,972)	(45,793)
Net income from Islamic financing	104,544	91,124	124,316	124,117	110,110
Net interest income and net income from Islamic financing	472,595	516,977	689,224	690,453	628,964
Net fees and commissions	109,781	116,825	157,152	150,176	138,556
Net investment income	610	6,913	8,419	2,140	19,818
Net gains from dealing in foreign currencies	31,859	31,028	39,343	39,026	33,735
Other operating income	17,576	1,012	1,379	1,424	1,600
Non-interest income	159,826	155,778	206,293	192,766	193,709
Net operating income	632,421	672,755	895,517	883,219	822,673
Staff expenses	(124,276)	(129,435)	(175,731)	(159,984)	(154,472)
Other administrative expenses	(75,566)	(70,809)	(98,852)	(98,555)	(92,731)
Depreciation of premises and equipment	(25,024)	(19,165)	(26,493)	(14,703)	(15,121)
Amortisation of intangible assets	(1,235)	(2,384)	(3,198)	(3,096)	(3,121)
Operating expenses	226,101	221,793	(304,274)	(276,338)	(265,445)
Operating profit before provision for credit losses and impairment losses	406,320	450,962	591,243	606,881	557,228
Provision charge for credit losses and impairment losses	(207,649)	(104,656)	(129,715)	(179,692)	(188,219)
Operating profit before taxation	198,671	346,306	461,528	427,189	369,009
Taxation	(21,327)	(26,324)	(35,536)	(33,240)	(26,704)
Profit for the period	177,344	319,982	425,992	393,949	342,305
Attributable to:					
Shareholders of the Bank	168,676	302,168	401,291	370,709	322,362
Non-controlling interests	8,668	17,814	24,701	23,240	19,943

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30 September	As at 31 December		
	2020	2019	2018	2017
	<i>(unaudited)</i>	<i>(KD thousands)</i>		
Assets				
Cash and short term funds	4,404,865	3,787,173	2,966,707	2,743,640
Central Bank of Kuwait bonds	830,645	823,229	809,871	655,591
Kuwait Government treasury bonds	477,438	662,175	872,042	1,076,211
Deposits with banks	1,110,462	1,909,081	2,364,242	2,488,188
Loans, advances and Islamic financing to customers	17,634,436	16,552,598	15,503,402	14,502,609
Investment securities	4,633,922	4,214,562	3,678,032	3,348,996
Investment in associates	6,257	35,297	31,425	63,187
Land, premises and equipment	425,652	433,540	362,801	324,277
Goodwill and other intangible assets	583,712	582,927	578,973	581,906

	As at 30 September	As at 31 December		
	2020	2019	2018	2017
		(KD thousands)		
Other assets	275,700	270,171	260,445	249,996
Total assets	30,383,089	29,270,753	27,427,940	26,034,601
Liabilities				
Due to banks and other financial institutions..	6,572,322	7,581,929	8,090,484	7,469,303
Customer deposits	17,499,220	15,930,577	14,388,836	13,779,607
Certificates of deposit issued	948,696	538,611	451,128	490,835
Global medium term notes	235,249	227,159	220,124	221,173
Subordinated Tier 2 bonds.....	124,816	124,801	124,768	124,734
Sukuk issued.....	230,410	-	-	-
Other liabilities	775,235	608,516	451,290	387,848
Total liabilities	26,385,948	25,011,593	23,726,630	22,473,500
Equity				
Share capital	685,019	652,399	621,332	591,744
Proposed bonus shares.....	-	32,620	31,067	29,588
Statutory reserve	326,199	326,199	310,666	295,872
Share premium account	803,028	803,028	803,028	803,028
Treasury shares	(39,258)	(39,258)	(65,425)	(77,799)
Treasury shares reserve.....	25,115	25,115	14,010	13,994
Other reserves	1,370,977	1,633,641	1,448,579	1,372,964
Equity attributable to shareholders of the Bank	3,171,080	3,433,744	3,163,257	3,029,391
Perpetual Tier 1 Notes.....	438,438	438,438	210,700	210,700
Non-controlling interests.....	387,623	386,978	327,353	321,010
Total equity	3,997,141	4,259,160	3,701,310	3,561,101
Total liabilities and equity	30,383,089	29,270,753	27,427,940	26,034,601

SELECTED RATIOS

	As at and for the nine months ended 30 September		As at and for the year ended 31 December		
	2020	2019	2019	2018	2017
			(per cent.)		
Performance measures					
Return on average assets ⁽¹⁾	0.75	1.45	1.42	1.38	1.28
Return on average equity ⁽²⁾	6.6	12.6	12.3	12.0	10.8
Cost to income ratio ⁽³⁾	35.8	33.0	34.0	31.3	32.3
Financial ratios					
Net interest margin ⁽⁴⁾	2.20	2.59	2.56	2.69	2.61
Yield ⁽⁵⁾	3.54	4.50	4.45	4.23	3.73
Funding cost ⁽⁶⁾	1.52	2.15	2.14	1.72	1.26
Net profit margin ⁽⁷⁾	26.7	44.9	44.8	42.0	39.2
Asset quality					
Impaired loans ratio ⁽⁸⁾	1.89	1.37	1.10	1.38	1.42
Loan loss coverage ratio ⁽⁹⁾	191.0	227.4	272.2	228.1	287.5
Liquidity coverage ratio ⁽¹⁰⁾	152.2	144.6	159.7	163.0	168.7
Loans to customer and financial institution deposits ratio ⁽¹¹⁾	84.4	82.8	83.2	81.1	78.5
Loans to total deposits ratio ⁽¹²⁾	70.5	68.2	68.8	67.6	66.7
Liquid asset ratio ⁽¹³⁾	35.1	36.2	36.2	35.9	39.1
Other ratios					
CET 1 capital adequacy ratio ^{(14) (15)}	12.8	12.6	13.5	13.8	14.2
Tier 1 capital adequacy ratio ⁽¹⁴⁾⁽¹⁶⁾	15.1	13.9	15.9	15.3	15.8
Total capital adequacy ratio ^{(14) (17)}	17.0	15.8	17.8	17.2	17.8
Financial leverage ratio ⁽¹⁸⁾	9.6	8.9	10.2	9.2	9.2
Net stable funding ratio ⁽¹⁹⁾	114.4	111.1	111.1	112.6	—

Notes:

(1) Profit for the year / period attributable to shareholders of the Bank (as set out in the consolidated statement of income in each of the Financial Statements) divided by average assets for the year / period. Average assets for the year were calculated as the sum of total assets on a quarterly basis divided by five. For the interim periods, the average assets were calculated as the sum of total assets on a quarterly basis divided by four.

(2) Profit for the year / period attributable to shareholders of the Bank less interest paid on Tier 1 Capital (which is not included in shareholders' equity) divided by average shareholders' equity (being equity attributable to shareholders of the Bank as set out in the statement of financial position in each of the Financial Statements) for the year / period. Average shareholders' equity for the year were calculated as the sum of shareholders' equity on a quarterly basis divided by five. For interim periods, the average shareholders' equity was calculated as the sum of shareholders' equity on a quarterly basis divided by four.

- (3) Operating expenses (as set out in the consolidated statement of income in each of the Financial Statements) divided by net operating income (as set out in the consolidated statement of income in each of the Financial Statements).
- (4) Net interest income and net income from Islamic financing (each as set out in the consolidated statement of income in each of the Financial Statements) divided by average income-earning assets for the year / period. Average income earning assets for the year were calculated as the sum of income earning assets on a quarterly basis divided by five. For interim periods, average income earning assets calculated as the sum of income earning assets on a quarterly basis divided by four. Income earning assets comprise cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks, loans, advances and Islamic financing to customers and investment securities.
- (5) Interest income and income from Islamic financing (each as set out in the consolidated statement of income in each of the Financial Statements) divided by average income-earning assets for the year / period.
- (6) Interest expense and financing costs and distribution to depositors (each as set out in the consolidated statement of income in each of the Financial Statements) divided by the average cost-bearing liabilities for the year / period. Average cost-bearing liabilities for the year were calculated as the sum of cost-bearing liabilities on a quarterly basis divided by five. For interim periods, average cost-bearing liabilities were calculated as sum of cost-bearing liabilities on a quarterly basis divided by four. Cost-bearing liabilities comprise due to banks and other financial institutions, customer deposits, certificate of deposits issued, global medium term notes, subordinated tier 2 bonds and Sukuk issued.
- (7) Profit for the period attributable to shareholders of the Bank divided by net operating income for the period.
- (8) Impaired loans (being past due and impaired loans, advances and Islamic financing to customers as set out in, note 30.1.5 to the 2019 Financial Statements and note 30.1.5 to the 2018 Financial Statements and which amounted to KD 345,992 thousand and KD 231,727 thousand as at 30 September in each of 2020 and 2019, respectively) as a percentage of total gross loans (being loans, advances and Islamic financing to customers as set out in the first two tables to note 12 to each of the Annual Financial Statements and which amounted to KD 18,295,262 thousand and KD 16,886,142 thousand as at 30 September in each of 2020 and 2019, respectively).
- (9) Loan loss provisions (being provision for credit losses as set out in note 12 to each of the Annual Financial Statements and which amounted to KD 660,826 thousand and KD 526,885 thousand as at 30 September in each of 2020 and 2019, respectively) as a percentage of impaired loans.
- (10) Quarterly simple average is calculated in accordance with the requirements of CBK Circular number 2/RB/345/2014 dated 23 December 2014.
- (11) Loans, advances and Islamic financing to customers (as set out in the statement of financial position in each of the Financial Statements) divided by the sum of customer deposits and deposits from financial institutions.
- (12) Loans, advances and Islamic financing to customers divided by the sum of customer deposits, due to banks and other financial institutions and certificates of deposits issued (the latter as set out in the statement of financial position in each of the Financial Statements).
- (13) The sum of cash and short term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks and investment securities (each as set out in the statement of financial position in each of the Financial Statements) excluding investment securities at amortised cost/held to maturity (as set out in note 13 to each of the Annual Financial Statements and which amounted to KD 794,954 thousand and KD 807,700 thousand as at 30 September 2020 and 30 September 2019, respectively), divided by total assets (as set out in the statement of financial position in each of the Financial Statements).
- (14) Calculated in accordance with CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014.
- (15) CET 1 capital adequacy ratio is defined as CET 1 capital divided by risk-weighted assets at a given date.
- (16) Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.
- (17) Total capital adequacy ratio is defined as total capital resources divided by risk-weighted assets at a given date.
- (18) Calculated in accordance with the requirements of CBK Circular number 2/BS/342/2014 dated 21 October 2014. Leverage ratio is defined as the "capital" measure (being Tier 1 capital) divided by the "exposure" measure (being the sum of on-balance sheet assets, derivative exposures and off-balance sheet exposures).
- (19) Calculated in accordance with the requirements of CBK Circular number 2/BS/356/2015 dated 25 October 2015 from 2018.

FINANCIAL REVIEW

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

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

OVERVIEW

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

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

The Group currently operates through six financial reporting segments:

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

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

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

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

As at 30 September 2020, the Group's customer loan portfolio amounted to KD 17.6 billion and its total customer deposits were KD 17.5 billion. In the nine months ended 30 September 2020, the Group's net operating income was KD 632 million and its profit for the period was KD 177 million, of which KD 169 million was attributable to shareholders of the Bank. In the year ended 31 December 2019, the Group's net operating income was KD 896 million and its profit for the year was KD 426 million, of which KD 401 million was attributable to shareholders of the Bank.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS

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

Impact of COVID-19 Pandemic

The geographic expanse and operational nature of the Group's business has meant that the COVID-19 pandemic has had a significant impact. Net profit attributable to shareholders for the nine months ended 30 September 2020 was KD 168.7 million, a decrease of 44.2 per cent. compared to the corresponding period in 2019, principally reflecting the impact of the COVID-19 pandemic. The COVID-19 pandemic has affected the Group at all levels, particularly when considering the unpredictability of the spread of the virus as well as government and global responses. The highly integrated nature of the world economy today further exacerbated the speed and degree of spread of COVID-19 and the negative impact on business globally. While governments around the world have taken restrictive measures in an effort to control the outbreak, these measures negatively impacted economic activity and business sentiment. From business shutdowns to curfews and border closures, these measures, along with the change in business sentiment created a severe shock to world economies with global GDP expected to contract by 5.2 per cent. during 2020 (according to data published by the World Bank). The impact of the pandemic in the GCC region was even more severe due to the resultant large drop in oil prices and its impact on economic activity and budget deficits. In the first half of 2020, most GCC countries saw their fiscal positions weakened with large budget deficits projected for 2020 (according to data published by the World Bank).

The Group's business was impacted in most of its locations leading to more challenging operating environments across the Group's network. In Kuwait, the domestic economy was similarly pressured due to long periods of curfews which negatively impacted the Group's operations. The Group is expecting 2020 GDP in Kuwait to contract by around 6 per cent. due to the restrictive measures implemented in Kuwait. The first COVID-19 case was confirmed in Kuwait on 24 February, followed by a sequence of government decisions that started with business closures on 9 March and escalated to a complete lockdown during the month of May. Kuwait began a gradual opening of the economy in the beginning of June and today Kuwait is in phase four of the five-phased plan to return to some form of normal activity. Since the beginning of the pandemic and curfew measure implementation, the Group worked closely with the Government and the Central Bank of Kuwait to provide support to the economy in a quick and efficient way and to support its customers in their financial needs. Moreover, the Group supported government efforts to combat the spread of the pandemic by contributing to the KD 10 million fund created by Central Bank of Kuwait and donated KD 1 million to Kuwait's Red Crescent Society. The Central Bank of Kuwait initiated macro-prudential measures and reduced certain regulatory requirements in an effort to increase the banking sector's resilience and enable it to play a more active role throughout the crisis. These measures included lowering the banking sector's capital and liquidity requirements and dropping the discount rate to historically low levels which ultimately reached 1.5 per cent. The Group also took proactive measures and activated emergency plans during the early stages of the crisis in order to protect its employees and ensure business continuity including strict health and precautionary controls to ensure a safe environment for its staff and customers. Concurrently, the Group sought to leverage the flexibility of its business model, providing support and advice to customers facing financial difficulties and relying heavily on the Group's digital capabilities to maintain the level of service quality and accessibility that customers would expect in normal times. In this context, and without jeopardizing the Group's future business plans, the Group initiated cost-cutting initiatives to reduce the impact of the pandemic on profitability. In coordination with the Central Bank of Kuwait and the Kuwait Banking Association, the Group participated in all initiatives aimed at lifting the pressures customers were facing. For example, the Group extended support to customers by suspending fees on POS terminals, ATMs and digital channels for 3 months and increased the limit for contactless payments. In addition, the Group provided support to individuals by deferring consumer loans, instalment loans and credit card instalments for a period of six months for all customers. The Group also provided support financing to individuals, SMEs, and economic entities impacted by the COVID-19 crisis.

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

The Group implemented the consumer and other instalment loans deferral by postponing the instalments falling due within the six months period from 1 April 2020 to 30 September 2020 with a corresponding extension of the facility tenure. The instalment deferral resulted in a loss of KD 150 million to the Group arising from the modification of contractual cash-flows. The loss attributable to Bank's equity shareholders amounting to KD 130 million is charged to retained earnings and the remaining loss to the non-controlling interest.

As at the date of this Prospectus, the COVID-19 crisis, with approximately 50.7 million people infected and approximately 1.3 million deaths reported globally, is ongoing (according to data published by the World Health Organization). The ultimate scale and economic impact of the crisis remain unknown and due to the nature of governmental restrictions and responses as described above, the future impact of COVID-19 on the Group's operations cannot be ascertained.

Impact of Acquisition of a Controlling Stake in BLME

On 27 January 2020, the Group, through its subsidiary Boubyan Bank, increased its ownership in Bank of London Middle East ("BLME") from 27.91% to 71.08%. As a result BLME, which had been accounted for under the equity method in prior periods, has been fully consolidated in the Group's financial results. As at the date of acquisition, BLME contributed KD 523 million and KD 616 million to the Group's loans and total assets respectively, and KD 365 million to the Group's customer deposits. BLME contributed KD 10 million to net operating income and KD 1 million to net profit attributable to shareholders of the Bank in the nine months ended 30 September 2020.

Economic conditions

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

According to statistical information prepared by the CSB, Kuwait's nominal GDP fell by 4.1 per cent. in 2016, grew by 10.8 per cent. in 2017 and by 16.0 per cent. in 2018. In real terms, Kuwait's GDP grew by 2.9 per cent. in 2016 and fell by 4.7 per cent. in 2017, and grew by 1.2 per cent. in 2018. According to the IME, Kuwait had the ninth highest GDP (at purchasing power parity) per capita in 2019, at U.S.\$66,386.73.

Based on CSB information, the oil sector accounted for 38.5 per cent. of Kuwait's nominal GDP in 2016, 41.6 per cent. in 2017 and 47.1 per cent. in 2018. According to the CSB, in 2018, the other major economic sectors in Kuwait were community, social and personal services activity (at 22.7 per cent. of nominal GDP), real estate, renting and business services activity (at 8.9 per cent.), financial intermediation (at 8.6 per cent.), manufacturing (at 6.8 per cent.) and transport, storage and communications (at 5.9 per cent.).

In addition to economic conditions in the region, the Group remains exposed to the risk of external changes, such as an increase in global financial market volatility, which could pose funding, market and credit risks for investment companies and banks.

Factors affecting net interest income and net income from Islamic financing

The Group's net finance income (which comprises its interest income and income from Islamic financing less its interest expense and finance cost and distribution to depositors) is a major contributor to its total net operating income, comprising 74.7 per cent., 77.0 per cent., 78.2 per cent. and 76.5 per cent. of net operating income in the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively.

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

- interest income on loans and advances to customers, which comprised 54.3 per cent., 54.7 per cent., 57.4 per cent. and 59.5 per cent. of total finance income for the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively;
- income from Murabaha and other Islamic financing income, which comprised 22.3 per cent., 17.6 per cent., 17.2 per cent. and 17.4 per cent. of total finance income for the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively; and

- interest income from debt investment securities, which comprised 15.5 per cent., 15.7 per cent., 13.7 per cent. and 13.6 per cent. of total finance income for the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively.

In addition, interest income from deposits with banks, Central Bank of Kuwait bonds and Kuwait Government treasury bonds together comprised 7.8 per cent., 11.9 per cent., 11.7 per cent. and 9.5 per cent. of the Group's total finance income for the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively.

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

- interest paid on customer deposits, which comprised 47.1 per cent., 45.0 per cent., 46.7 per cent. and 44.8 per cent. of total financing expense in the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively;
- due to banks and other financial institutions, which comprised 25.3 per cent., 31.7 per cent., 31.0 per cent. and 32.1 per cent. of total financing expense in the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively; and
- finance cost and distribution to depositors, which comprised 22.6 per cent., 17.1 per cent., 15.8 per cent. and 17.0 per cent. of total financing expense in the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively.

In addition, certificates of deposit issued, global medium term notes and subordinated Tier 2 bonds together comprised 5.1 per cent., 6.2 per cent., 6.6 per cent. and 6.1 per cent. of the Group's financing cost in the nine months ended 30 September 2020 and the years ended 31 December 2019, 2018 and 2017, respectively.

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

The changes in the Group's net finance income for the nine months ended 30 September 2020 compared to the nine months ended 30 September 2019 were primarily driven by lower benchmark interest rates and tighter margins, in part offset by growth in loans and advances to customers, growth in debt investment securities and the impact of the BLME consolidation. The Group's average customer loan portfolio was KD 17,369 million for the nine months ended 30 September 2020 compared to KD 16,031 million for the nine months ended 30 September 2019.

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

The changes in the Group's net finance income for 2018 compared to 2017 were primarily driven by growth in loans and advances to customers, growth in debt investment securities and higher margins. The Group's average customer loan portfolio (based on quarterly balances divided by five) was KD 15,096 million for 2018 compared to KD 14,191 million for 2017, an increase of KD 905 million.

The Group's net interest margin (being its net finance income divided by its average income-earning assets for the period, with average income-earning assets calculated as the sum of income-earning assets on a quarterly basis divided by four for the nine month periods or by five for the years) was 2.20 per cent. in the nine months ended 30 September 2020 compared 2.59 per cent. in the nine months ended 30 September 2019 and was 2.56 per cent. in 2019 compared to 2.69 per cent. in 2018 and 2.61 per cent. in 2017. The decrease in the nine months ended 30 September 2020 compared to the corresponding period in 2019 principally reflected the impact of lower benchmark interest rates resulting from the COVID-19 (the discount rate was cut by the Central Bank of Kuwait by 25 bps in October 2019 and then by 125 bps in March 2020) and tighter margins, which were partially offset by the growth in loans and advances to customers and investment securities. The decrease in 2019 principally reflected higher funding costs, in part offset by growth in higher-yielding assets such as loans and advances to customers and growth in debt investment

securities. The increase in 2018 primarily reflected the benefit of growth in higher-yielding assets such as loans and advances to customers and debt investment securities and benchmark rate increases, in part offset by higher funding costs.

Movements in provision charge for credit losses

The Group's provision charge for credit losses for the nine months ended 30 September 2020 was KD 179 million compared to KD 101 million for the nine months ended 30 September 2019. The Group's provision charge for credit losses for the year ended 31 December 2019 was KD 123 million compared to KD 169 million in 2018 and KD 175 million in 2017.

Since 1 January 2018, in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK, the Group is required to recognise impairment allowances for credit facilities at an amount equal to the higher of ECL under IFRS 9 according to CBK guidelines, and the provisions required by CBK Instructions as described in note 2.9 to the 2019 Financial Statements.

In the nine months ended 30 September 2020, the Group's provision charge for credit losses comprised KD 125.5 million in specific provisioning, KD 54.8 million in general provisioning against cash facilities and a release of KD 1.1 million provided against non-cash facilities. The substantial increase in provision charges for credit losses in the nine months ended 30 September 2020 as compared to the corresponding period in 2019 are further explained in the section "Provision charge for credit losses and impairment losses".

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

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

In 2017, the Group's provision charge for credit losses comprised KD 90 million in specific provisioning against cash facilities, KD 85 million in general provisioning against cash facilities and less than KD 1 million provided against non-cash facilities. Of the specific cash provisions, KD 69 million were charged against corporate exposures and KD 20 million were charged against retail exposures.

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

DESCRIPTIONS OF PRINCIPAL STATEMENT OF INCOME ITEMS

Interest income

Interest income is the Group's principal source of income. The Group earns interest income on the customer loans and advances made by it, on its portfolio of debt investment securities and on its deposits with central banks and other banks. Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income over the relevant period.

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

Interest expense

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

Net income from Islamic financing

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

Net fee and commission income

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

Net investment income

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

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

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

The Group's investments at fair value through other comprehensive income or fair value through profit or loss and, prior to 1 January 2018, its available for sale and fair value through statement of income securities are or, as the case may be, were measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 25 to the 2019 Financial Statements.

Net gains and losses from dealing in foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into the Group's

functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

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

Other operating income

Other operating income consists of rental and other sundry income.

Staff expenses

Staff expenses consist primarily of salaries, bonuses and other benefits to full-time employees.

Other administrative expenses

Other administrative expenses consist primarily of premises expenses, marketing and advertising expenses, communication expenses, IT expenses, professional expenses and other expenses.

Provision charge for credit losses and impairment losses

Since 1 January 2018, at each reporting date the Group recognises its ECL on its credit facilities, on its investment in debt securities measured at amortised cost or fair value through other comprehensive income and on its balances and deposits with banks. Equity investments are not subject to ECL.

The Group's credit facilities comprise its loans and advances, Islamic financing to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. The Group's impairment charge on credit facilities is recognised in the consolidated statement of financial position at an amount equal to the higher of (i) ECL under IFRS 9 as determined under CBK Instructions and (ii) the provisions for credit losses required by CBK Instructions.

IFRS 9. IFRS 9 as set forth in the CBK guidelines includes certain prescribed criteria and may not be directly comparable to the IFRS 9 methodology as applied in other jurisdictions. The manner in which the Group determines ECL and the provisions for credit losses required by the CBK is set out in note 2.9 to the 2019 Financial Statements and summarised in "*Risk Management—Principal Risks—Credit risk—Impairment, expected credit loss and/or provisions*".

Provisions for credit losses in accordance with CBK Instructions. Prior to 1 January 2018, at each reporting date and in accordance with both CBK regulations relating to the method of calculating specific provisions and estimates made in accordance with IAS 39 as adopted for use by Kuwait for financial institutions regulated by the CBK, the Group assessed its financial assets for objective evidence of impairment. In particular:

- all individually significant loans and advances to customers were assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer loan portfolio) were measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective interest rate;
- a minimum general provision was made on all credit facilities, which are not subject to specific provisioning, net of certain restricted categories of collateral, with additional general provisions being made at management's discretion with the approval of the CBK;
- impairment losses on available for sale investment securities were recognised by transferring the cumulative loss that had been recognised in other comprehensive income to the income statement as a reclassification adjustment; and

- impairment losses on associates, goodwill and intangibles were recognised for the amount by which the asset's carrying amount exceeded its recoverable amount. The recoverable amount was the higher of an asset's fair value less costs to sell and value in use.

In each of the periods since 1 January 2018, the Group's impairment requirements have been calculated under both methodologies, and for each applicable period, the provisions for credit losses required by CBK Instructions have been higher than the amount calculated pursuant to IFRS 9. For example, for 31 December 2019, the provision for credit losses as determined under IFRS 9 amounted to KD 395 million compared to KD 541 million as determined under CBK Instructions. As a result, the Group's provisions for credit losses were higher than if only IFRS 9 had applied.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020 COMPARED TO THE NINE MONTHS ENDED 30 SEPTEMBER 2019

All financial data in this section is unaudited.

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

	Nine months ended 30 September	
	2020	2019
	<i>(KD thousands)</i>	
Interest income	590,001	740,777
Interest expense	(221,950)	(314,924)
Net interest income	368,051	425,853
Murabaha and other Islamic financing income	169,291	155,339
Finance cost and distribution to depositors	(64,747)	(64,215)
Net income from Islamic financing	104,544	91,124
Net interest income and net income from Islamic financing	472,595	516,977
Net fees and commissions	109,781	116,825
Net investment income	610	6,913
Net gains from dealing in foreign currencies	31,859	31,028
Other operating income	17,576	1,012
Non-interest income	159,826	155,778
Net operating income	632,421	672,755
Staff expenses	(124,276)	(129,435)
Other administrative expenses	(75,566)	(70,809)
Depreciation of premises and equipment	(25,024)	(19,165)
Amortisation of intangible assets	(1,235)	(2,384)
Operating expenses	(226,101)	(221,793)
Operating profit before provision for credit losses and impairment losses	406,320	450,962
Provision charge for credit losses and impairment losses	(207,649)	(104,656)
Operating profit before taxation	198,671	346,306
Taxation	21,327	26,324
Profit for the period	177,344	319,982
Attributable to:		
Shareholders of the Bank	168,676	302,168
Non-controlling interests	8,668	17,814

Net interest income

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

	Nine months ended 30 September				Variation 2020/2019 <i>(per cent.)</i>
	2020	% of total	2019	% of total	
	<i>(KD thousands, except percentages)</i>				
Deposits with banks	36,215	6.1	69,296	9.4	-47.7
Loans and advances to customers	412,649	69.9	493,316	66.6	-16.4
Debt investment securities	118,013	20.0	141,646	19.1	-16.7
Other	23,124	3.9	36,519	4.9	-36.7
Total interest income	590,001	100.0	740,777	100.0	-20.4

The Group's total interest income for the nine months ended 30 September 2020 amounted to KD 590 million compared to KD 741 million for the corresponding period in 2019. The decrease of KD 151 million,

or 20.4 per cent., in the 2020 period was mainly attributable to lower benchmark interest rates, which was partially offset by an increase in loans and advances to customers and in debt investment securities.

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

	Nine months ended 30 September				Variation 2020/2019
	2020	% of total	2019	% of total	
	<i>(KD thousands, except percentages)</i>				<i>(per cent.)</i>
Due to banks and other financial institutions.....	72,440	32.6	123,424	39.2	-41.3
Customer deposits	134,954	60.8	166,828	53.0	-19.1
Certificates of deposits issued	6,386	2.9	13,615	4.3	-53.1
Global medium term notes	3,745	1.7	6,228	2.0	-39.9
Subordinated Tier 2 bonds.....	4,425	2.0	4,830	1.5	-8.4
Total interest expense.....	221,950	100.0	314,924	100.0	-29.5

The Group's total interest expense for the nine months ended 30 September 2020 amounted to KD 222 million compared to KD 315 million for the corresponding period in 2019. The decrease of KD 93 million, or 29.5 per cent., primarily reflected the effect of the lower benchmark interest rates, partially offset by growth in the Group's funding sources.

Reflecting the above factors, the Group's net interest income in the nine months ended 30 September 2020 amounted to KD 368 million, a decrease of KD 58 million, or 13.6 per cent., from the KD 426 million net interest income recorded in the corresponding period in 2019.

Net income from Islamic financing

The Group's Islamic financing income for the nine months ended 30 September 2020 amounted to KD 169 million compared to KD 155 million for the corresponding period in 2019. The increase of KD 14 million, or 9.0 per cent., in the 2020 period primarily reflected the impact of the consolidation of BLME and the growth in the Group's Islamic financing to customers, partially offset by lower benchmark interest rates.

The Group's Islamic financing costs for the nine months ended 30 September 2020 amounted to KD 65 million compared to KD 64 million for the corresponding period in 2019. The increase of KD 1 million, or 0.8 per cent., in the 2020 period primarily reflected the impact from the consolidation of BLME and the growth in the volume of the Group's Islamic deposits, partially offset by lower benchmark interest rates.

Reflecting the above factors, the Group's net income from Islamic financing amounted to KD 105 million in the nine months ended 30 September 2020, an increase of KD 13 million, or 14.7 per cent., from the KD 91 million net income from Islamic financing recorded in the corresponding period in 2019.

Net finance income

The Group's net finance income for the nine months ended 30 September 2020 amounted to KD 473 million compared to KD 517 million for the corresponding period in 2019.

The changes in the Group's net finance income for the nine months ended 30 September 2020 compared to the corresponding period in 2019 primarily resulted from lower benchmark rates and tighter margins, partially offset by the growth in loans and advances to customers, the growth in debt investment securities and the impact from consolidation of BLME. The Group's average customer loan portfolio was KD 17,369 million for the nine months ended 30 September 2020 compared to KD 16,031 million for the corresponding period in 2019, an increase of KD 1,338 million, or 8.3 per cent.

The Group's net interest margin decreased in the nine months ended 30 September 2020 to 2.20 per cent. from 2.59 per cent. in the corresponding period in 2019, principally resulting from lower benchmark interest rates and tighter margins, partially offset by the growth in loans and advances to customers and the growth in debt investment securities.

Net fees and commissions

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

	Nine months ended 30 September				Variation 2020/2019 (per cent.)
	2020	% of total	2019	% of total	
	<i>(KD thousands, except percentages)</i>				
Credit facilities (net)	50,115	45.6	48,967	41.9	2.3
Other (net)	59,666	54.4	67,858	58.1	(12.1)
Total net fees and commissions	109,781	100.0	116,825	100.0	(6.0)

The Group's net fees and commissions income for the nine months ended 30 September 2020 amounted to KD 110 million compared to KD 117 million for the corresponding period in 2019. The KD 7 million, or 6.0 per cent., decrease was primarily attributable to the slowdown in economic activity resulting from the COVID-19 pandemic.

Foreign exchange and other sources of operating income

The Group's foreign exchange income for the nine months ended 30 September 2020 amounted to KD 32 million compared to KD 31 million for the corresponding period in 2019. The increase of KD 1 million principally reflected the impact of currency movements on the perpetual tier 1 bond issuances, partially offset by lower economic activity.

The Group's other operating income comprised net investment income and other operating income. The Group's other operating income for the nine months ended 30 September 2020 amounted to KD 18 million compared to KD 8 million for the corresponding period in 2019. The increase of KD 10 million principally reflected a gain on the sale of the Bank's old head office and a Government subsidy across the Group, partially offset by a negative swing in the fair market valuation of funds and equity investments.

Operating expenses

The Group's operating expenses amounted to KD 226 million for the nine months ended 30 September 2020 compared to KD 222 million for the corresponding period in 2019. The increase of KD 4 million, or 1.9 per cent., principally reflected the impact of the consolidation of BLME, COVID-19 related contributions, continued investment in IT and other digital initiatives and higher depreciation from the capitalisation of the new headquarters and data centre.

Provision charge for credit losses and impairment losses

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

	Nine months ended 30 September	
	2020	2019
	<i>(KD thousands)</i>	
Specific	125,454	91,972
General	53,784	9,358
Total provision charge for credit losses	179,238	101,330
Other impairment losses	28,411	3,326
Provision charge for credit losses and impairment losses	207,649	104,656

The Group's total provision charge and for credit losses and impairment loss amounted to KD 207.6 million for the nine months ended 30 September 2020, compared to KD 104.7 million for the corresponding period in 2019. The nine months ended 30 September 2020 experienced heightened levels of volatility, increasing possible default trends and adverse forecasts due to the onset of COVID-19, alongside certain specific events, that have triggered the increased provision and impairment charges.

The Group's total specific provisions amounted to KD 125.5 million for the nine months ended 30 September 2020, compared to KD 91.9 million for the corresponding period in 2019. During the nine months ended 30 September 2020, the default of a troubled GCC-based healthcare group contributed to around 22 per cent. of the specific provisions, while the remaining primarily reflected an increased level of uncertainty around cash flows for certain of the Group's customers in light of the COVID-19 crisis.

The Group's total general provisions amounted to KD 53.8 million for the nine months ended 30 September 2020, compared to KD 9.4 million for the corresponding period in 2019. The increase in general provisions represented the contingent build up of provisions by the Group.

The Group's other impairment losses amounted to KD 28.4 million for the nine months ended 30 September 2020, compared to KD 3.3 million for the corresponding period in 2019, which was in lieu of other impairment losses for non-financial assets. During the nine months ended 30 September 2020, increased PDs in light of the COVID-19 crisis, as well the downgrade of Lebanon, contributed to the significant increase in IFRS 9 ECL requirements for financial assets other than credit facilities.

Taxation

The Group's taxation charge for the nine months ended 30 September 2020 amounted to KD 21 million compared to KD 26 million for the nine months ended 30 September 2019. The decrease of KD 5 million, or 19.0 per cent., in the 2020 period primarily reflected lower profits, which were partially offset by higher taxes in Egypt from a new tax law.

Segmental analysis

The Group's reporting segments comprise:

- *Consumer and private banking ("CPB")*. Consumer banking provides a diversified range of products and services to individuals including consumer loans, credit cards, deposits, foreign exchange and other branch-related services. Private banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients;
- *Corporate banking ("CB")*. 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 ("IBAM")*. 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 ("IB")*. Islamic banking represents the financial results of Boubyan Bank, the Islamic banking subsidiary of the Group;
- *Group centre ("GC")*. 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 Group's liquidity and market risk management. Group centre includes any residual in respect of transfer pricing and intersegment allocations; and
- *International*. International comprises the activities of all branches, subsidiaries and associates outside the State of Kuwait.

The tables below show certain income statement line items of each of the Group's reporting segments for the periods indicated.

	Nine months ended 30 September 2020						Total
	CPB	CB	IBAM	IB	GC	International	
Net interest income and net income from Islamic financing	162,565	57,844	597	104,544	23,326	123,719	472,595
Net operating income	206,617	92,701	20,553	126,039	29,759	156,752	632,421
Profit for the period	98,495	34,075	11,177	23,021	(15,323)	25,899	177,344
Total assets	4,691,141	5,126,688	63,706	6,276,096	3,093,957	11,131,501	30,383,089
Total liabilities	6,381,070	2,397,240	9,204	5,662,872	182,818	11,752,744	26,385,948

Nine months ended 30 September 2019							
	CPB	CB	IBAM	IB	GC	International	Total
				(KD thousand)			
Net interest income and net income from Islamic financing	161,123	84,466	612	91,124	44,560	135,092	516,977
Net operating income	216,324	120,347	21,212	113,294	37,130	164,448	672,755
Profit for the period	134,096	41,850	11,988	45,252	3,055	83,741	319,982
Total assets	4,662,952	5,048,390	60,794	5,032,954	3,691,700	10,412,447	28,909,237
Total liabilities	5,441,446	2,517,689	8,655	4,387,912	1,388,172	11,248,954	24,992,828

Consumer and private banking

CPB's net operating income for the nine months ended 30 September 2020 amounted to KD 207 million compared to KD 216 million for the corresponding period in 2019. The decrease of KD 10 million, or 4.5 per cent., in the 2020 period primarily reflected lower fee income and lower foreign exchange income due to a slower pace of economic activity and lower benchmark rates, partially offset by increased volumes of loans and deposits. CPB's profit for the nine months ended 30 September 2020 amounted to KD 98 million compared to KD 134 million for the corresponding period in 2019. The decrease of KD 36 million, or 26.5 per cent., primarily reflected higher provisions for credit losses in anticipation of the deterioration in the retail credit portfolio as a result of COVID-19 and lower net operating income.

Corporate banking

CB's net operating income for the nine months ended 30 September 2020 amounted to KD 93 million compared to KD 120 million for the corresponding period in 2019. The decrease of KD 28 million, or 23.0 per cent., in the 2020 period primarily reflected lower net interest income from lower benchmark interest rates. CB's profit for the nine months ended 30 September 2020 amounted to KD 34 million compared to KD 42 million for the corresponding period in 2019. The decrease of KD 8 million, or 18.6 per cent., primarily reflected lower net operating income, offset in part by lower provisions for credit losses.

Investment banking and asset management

IBAM's net operating income for the nine months ended 30 September 2020 and 30 September 2019 amounted to KD 21 million. IBAM's profit for the nine months ended 30 September 2020 amounted to KD 11 million compared to KD 12 million for the corresponding period in 2019. The decline of KD 1 million, or 6.8 per cent., primarily reflected lower investment income resulting from a negative swing in the fair market valuation of funds and equity investments, partially offset by higher fee income.

Islamic banking

IB's net operating income for the nine months ended 30 September 2020 amounted to KD 126 million compared to KD 113 million for the corresponding period in 2019. The increase of KD 13 million, or 11.2 per cent., in the 2020 period primarily reflected the impact of the consolidation of BLME and the government subsidy, partially offset by lower fee income due to a slower pace of economic activity. IB's profit for the nine months ended 30 September 2020 amounted to KD 23 million compared to KD 45 million for the corresponding period in 2019. The decrease of KD 22 million, or 49.1 per cent., primarily reflected higher provisions for credit losses from precautionary provisions to manage the impact of the COVID-19 crisis and higher costs, partially offset by higher net operating income.

Group centre

GC's net operating income for the nine months ended 30 September 2020 amounted to KD 30 million compared to KD 37 million for the corresponding period in 2019. The decrease of KD 7 million, or 19.9 per cent., in the 2020 period primarily reflected lower net interest income due to lower benchmark interest rates and lower investment income resulting from a negative swing in the fair market valuation of funds and equity investments, partially offset by a gain on sale of the Bank's old head office, government subsidies and higher foreign exchange income resulting from impact of currency movements on perpetual tier 1 bond issuances. GC's loss for the nine months ended 30 September 2020 amounted to KD 15 million compared to KD 3 million profit for the corresponding period in 2019. This change primarily reflected lower net operating income, higher precautionary provisions and a higher expected credit loss charge from the effects of volatility

that may arise in anticipation of a worsening of macroeconomic factors due to the COVID-19 crisis, partially offset by lower costs.

International

International's net operating income for the nine months ended 30 September 2020 amounted to KD 157 million compared to KD 164 million for the corresponding period in 2019. The decrease of KD 8 million, or 4.7 per cent., in the 2020 period primarily reflected lower benchmark interest rates and tighter margins, partially offset by growth in loans and advances to customers and growth in debt investment securities and higher fee income. International's profit for the nine months ended 30 September 2020 amounted to KD 26 million compared to KD 84 million for the corresponding period in 2019. The decline of KD 58 million, or 69.1 per cent., primarily reflected expected credit losses in respect of operations in Lebanon, provisions for credit losses for a regional corporate customer, lower net operating income and higher costs.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2019, 2018 AND 2017

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

	Year ended 31 December		
	2019	2018	2017
	<i>(KD thousands)</i>		
Interest income	986,526	897,218	742,616
Interest expense	(421,618)	(330,882)	(223,762)
Net interest income	564,908	566,336	518,854
Murabaha and other Islamic financing income	211,317	186,089	155,903
Finance cost and distribution to depositors	(87,001)	(61,972)	(45,793)
Net income from Islamic financing	124,316	124,117	110,110
Net interest income and net income from Islamic financing	689,224	690,453	628,964
Net fees and commissions	157,152	150,176	138,556
Net investment income	8,419	2,140	19,818
Net gains from dealing in foreign currencies	39,343	39,026	33,735
Other operating income	1,379	1,424	1,600
Non-interest income	206,293	192,766	193,709
Net operating income	895,517	883,219	822,673
Staff expenses	(175,731)	(159,984)	(154,472)
Other administrative expenses	(98,852)	(98,555)	(92,731)
Depreciation of premises and equipment	(26,493)	(14,703)	(15,121)
Amortisation of intangible assets	(3,198)	(3,096)	(3,121)
Operating expenses	(304,274)	(276,338)	(265,445)
Operating profit before provision for credit losses and impairment losses	591,243	606,881	557,228
Provision charge for credit losses and impairment losses	(129,715)	(179,692)	(188,219)
Operating profit before taxation	461,528	427,189	369,009
Taxation	(35,536)	(33,240)	(26,704)
Profit for the year	425,992	393,949	342,305
Attributable to:			
Shareholders of the Bank	401,291	370,709	322,362
Non-controlling interests	24,701	23,240	19,943

Net interest income

The following table sets forth the details of the Group's interest income for the years indicated.

	Year ended 31 December						Variation	
	2019	% of total	2018	% of total	2017	% of total	2019/2018	2018/2017
	<i>(KD thousands, except percentages)</i>						<i>(per cent.)</i>	
Deposits with banks	94,607	9.6	85,039	9.5	57,624	7.8	11.3	47.6
Loans and advances to customers	655,226	66.4	622,288	69.4	534,490	72.0	5.3	16.4
Debt investment securities	188,635	19.1	148,106	16.5	122,481	16.5	27.4	20.9
Kuwait government treasury bonds and CBK bonds	48,058	4.9	41,785	4.7	28,021	3.8	15.0	49.1
Total interest income	986,526	100.0	897,218	100.0	742,616	100.0	10.0	20.8

The Group's total interest income for the year ended 31 December 2019 amounted to KD 987 million compared to KD 897 million for the year ended 31 December 2018 and KD 743 million for the year ended 31 December 2017.

The increase of KD 89 million, or 10.0 per cent., in 2019 reflected:

- a KD 33 million, or 5.3 per cent., increase in interest income from loans and advances to customers driven by growth in volumes in the International segment;
- a KD 10 million, or 11.3 per cent., increase in interest income from deposits with banks driven by rate increases; and
- a KD 41 million, or 27.4 per cent increase in interest income from debt investment securities driven by increases growth in volumes and rate increases.

The increase of KD 155 million, or 20.8 per cent., in 2018 reflected:

- a KD 88 million, or 16.4 per cent., increase in interest income from loans and advances to customers driven by increases in benchmark rates and growth in volumes in the International segment;
- a KD 27 million, or 47.6 per cent., increase in interest income from deposits with banks driven by increases in benchmark rates and volume growth;
- a KD 26 million, or 20.9 per cent increase in interest income from debt investment securities driven by increases in benchmark rates and volume growth; and
- a KD 14 million, or 49.1 per cent., increase in interest income from Kuwaiti government treasury bonds and CBK bonds driven by increases in benchmark rates and volume growth.

The following table shows details of the Group's interest expense for the periods indicated.

	Year ended 31 December					Variation		
	2019	% of total	2018	% of total	2017	% of total	2019/2018	2018/2017
	<i>(KD thousands, except percentages)</i>					<i>(per cent.)</i>		
Due to banks and other financial institutions	161,415	38.3	121,661	36.8	86,576	38.7	32.7	40.5
Customer deposits	228,711	54.2	183,405	55.4	120,738	54.0	24.7	51.9
Certificates of deposit issued. Global medium term notes	17,063	4.0	12,092	3.7	7,103	3.2	41.1	70.2
Subordinated Tier 2 bonds	8,007	1.9	7,344	2.2	3,180	1.4	9.0	130.9
	6,422	1.5	6,380	1.9	6,165	2.8	0.7	3.5
Total interest expense	421,618	100.0	330,882	100.0	223,762	100.0	27.4	47.9

The Group's total interest expense for the year ended 31 December 2019 amounted to KD 422 million compared to KD 331 million for the year ended 31 December 2018 and KD 224 million for the year ended 31 December 2017.

The increase of KD 91 million, or 27.4 per cent., in 2019 principally reflected:

- a KD 45 million, or 24.7 per cent., increase in interest expense on customer deposits which was driven by rate increases and growth in volumes;
- a KD 40 million, or 32.7 per cent., increase in interest expense on amounts due to banks and other financial institutions which was driven by rate increases; and
- a KD 5 million, or 41.1 per cent., interest in interest expense on certificates of deposit issued which was driven by growth in volumes and rate increases.

The increase of KD 107 million, or 47.9 per cent., in 2018 principally reflected:

- a KD 63 million, or 51.9 per cent., increase in interest expense on customer deposits which was driven by benchmark rate increases and growth in volumes;
- a KD 35 million, or 40.5 per cent., increase in interest expense on amounts due to banks and other financial institutions which was driven by benchmark rate increases and growth in volumes;
- a KD 5 million, or 70.2 per cent., increase in interest expense on certificates of deposit issued which was almost entirely driven by benchmark rate increases; and
- a KD 4 million, or 130.9 per cent., increase in interest expense on global medium term notes issued, which was principally due to a full year's interest being payable in 2018 compared to only seven months interest being paid in 2017.

Reflecting the above factors, the Group's net interest income in 2019 amounted to KD 565 million, a decrease of KD 1 million, or 0.3 per cent., from the KD 566 million net interest income recorded in 2018 which, in turn, was an increase of KD 47 million, or 9.2 per cent., from the KD 519 million net interest income recorded in 2017.

Net income from Islamic financing

The Group's murabaha and other Islamic financing income for the year ended 31 December 2019 amounted to KD 211 million compared to KD 186 million for the year ended 31 December 2018 and KD 156 million for the year ended 31 December 2017. The increase of KD 25 million, or 13.6 per cent., in 2019 and the increase of KD 30 million, or 19.4 per cent., in 2017 principally reflected increased corporate and consumer lending. 2018 also benefitted from benchmark rate increases.

The Group's finance cost and distribution to depositors for the year ended 31 December 2019 amounted to KD 87 million compared to KD 62 million for the year ended 31 December 2018 and KD 46 million for the year ended 31 December 2017. The increase of KD 25 million, or 40.4 per cent., in 2019 and the increase of KD 16 million, or 35.3 per cent., in 2018 principally reflected growth in the volume of Group's Islamic deposits. 2018 also included higher costs from benchmark rate increases.

Reflecting the above factors, the Group's net income from Islamic financing for the year ended 31 December 2019 remained stable at KD 124 million in line with KD 124 million for the year ended 31 December 2018 which was a KD 14 million, or 12.7 per cent. increase from the KD 110 million net income from Islamic financing recorded in 2017.

Net finance income

The Group's net financing income for the year ended 31 December 2019 amounted to KD 689 million compared to KD 690 million for the year ended 31 December 2018 and KD 629 million for the year ended 31 December 2017.

The changes in the Group's net financing income for 2019 compared to 2018 have primarily been driven by were primarily driven by lower margins, in part offset by growth in loans and advances to customers and growth in debt investment securities. The Group's average customer loan portfolio (based on quarterly balances in each year divided by five) was KD 16,136 million for 2019 compared to KD 15,096 million for 2018, an increase of KD 1,040 million, or 6.9 per cent.

The changes in the Group's net financing income for 2018 compared to 2017 have primarily been driven by growth in loans and advances to customers, growth in debt investment securities and higher margins. The Group's average customer loan portfolio (based on quarterly balances in each year divided by five) was KD 15,096 million for 2018 compared to KD 14,191 million for 2017, an increase of KD 905 million, or 6.4 per cent.

The Group's net interest margin decreased in 2019 to 2.56 per cent. from 2.69 per cent. in 2018 and 2.61 per cent. in 2017. The decrease during 2019 principally reflected higher funding costs, in part offset by growth in higher yielding assets such as loans and advances to customers, growth in debt investment securities and a decrease in holdings of lower earnings assets. The increase in the Group's net interest margin during 2018

principally reflected the benefit of growth in higher yielding assets such as loans and advances to customers, growth in debt investment securities and benchmark rate increases, in part offset by higher funding costs.

Net fees and commissions

The following table shows the Group's net fees and commissions for the years ended 31 December 2019, 2018 and 2017.

	Year ended 31 December				Variation	
	2019	% of total	2018	% of total	2019/2018	2018/2017
	<i>(KD thousands, except percentages)</i>					
Credit facilities.....	64,920	41.3	63,456	42.3	59,514	43.0
Other.....	92,232	58.7	86,720	57.7	79,042	57.0
Total net fees and commissions.....	157,152	100.0	150,176	100.0	138,556	100.0
	<i>(per cent.)</i>					
					4.6	8.4

The Group's net fees and commissions income for the year ended 31 December 2019 amounted to KD 157 million, an increase of KD 7 million, or 4.6 per cent., from KD 150 million for the year ended 31 December 2018. This increase principally reflected an increase in credit facilities, cards, asset management and brokerage. The Group's net fees and commission income for the year ended 31 December 2018 amounted to KD 150 million, an increase of KD 12 million, or 8.4 per cent., from the KD 139 million net fees and commissions income recorded for 2017. This increase principally reflected an increase in credit facilities, cards, asset management and investment banking.

Foreign exchange and other operating income

The Group's foreign exchange income for the year ended 31 December 2019 amounted to KD 39 million compared to KD 39 million for the year ended 31 December 2018.

The Group's other operating income for the year ended 31 December 2019 amounted to KD 10 million compared to KD 4 million for the year ended 31 December 2018. The increase of KD 6 million principally reflected higher investment income.

The Group's foreign exchange income for the year ended 31 December 2018 amounted to KD 39 million compared to KD 34 million for the year ended 31 December 2017.

The Group's other operating income for the year ended 31 December 2018 amounted to KD 4 million compared to KD 21 million for the year ended 31 December 2017. The decrease of KD 18 million principally reflected lower investment income.

Operating expenses

The Group's total operating expenses amounted to KD 304 million for 2019 compared to KD 276 million for 2018 and KD 265 million for 2017. The increase of KD 28 million, or 10.1 per cent., in 2019 reflected a KD 16 million, or 9.8 per cent., increase in staff expenses which principally reflected increased headcount and annual increments and a KD 12 million, or 10.5 per cent., increase in other operating expenses.

The increase of KD 11 million, or 4.1 per cent., in 2018 reflected a KD 6 million, or 6.3 per cent., increase in other administrative expenses and a KD 6 million, or 3.6 per cent., increase in staff expenses which principally reflected increased headcount and annual increments.

Provision charge for credit losses and impairment losses

The table below shows the Group's provision charge for credit losses and impairment losses for the years ended 31 December 2019, 2018 and 2017.

	Year ended 31 December		
	2019	2018	2017
	<i>(KD thousands)</i>		
Specific	111,239	164,968	89,829
General	11,346	4,350	85,122
Total provision charge for credit losses.....	122,585	169,318	174,951
Other impairment losses	7,130	10,374	13,268

	Year ended 31 December		
	2019	2018	2017
	(KD thousands)		
Provision charge for credit losses and impairment losses	<u>129,715</u>	<u>179,692</u>	<u>188,219</u>

The Group's total provision charge for credit losses and impairment losses amounted to KD 130 million for the year ended 31 December 2019 compared to KD 180 million for the year ended 31 December 2018 and KD 188 million for the year ended 31 December 2017.

The KD 50 million, or 27.8 per cent., decrease in 2019 principally reflected a KD 47 million, or 27.6 per cent. decrease in the provision charge for credit losses and a KD 3 million, or 31.2 per cent. decrease in the provision for impairment losses.

The KD 9 million, or 4.5 per cent., decrease in 2018 principally reflected a KD 6 million, or 3.2 per cent., decrease in the provision charge for credit losses and a KD 3 million, or 21.3 per cent., decrease in the provision for impairment losses on associates. The reduction in the provision charge for credit losses reflected a KD 75 million, or 83.6 per cent., increase in specific provisions principally reflecting provisions taken against corporate exposures, which was offset by a KD 81 million, or 94.9 per cent., reduction in the general provision taken in 2018.

Taxation

The Group's taxation charge for the year ended 31 December 2019 amounted to KD 36 million compared to KD 33 million for the year ended 31 December 2018 and KD 27 million for the year ended 31 December 2017. The increase of KD 2 million, or 6.9 per cent., in 2019 principally reflected higher Group profits and increased national labour support tax payments. The increase of KD 7 million, or 24.5 per cent., in 2018 principally reflected higher Group profits and increased tax at the Group's overseas operations.

Segmental analysis

The tables below show certain income statement line items of each of the Group's reporting segments for the years ended 31 December 2019, 2018 and 2017.

	Year ended 31 December 2019						Total
	CPB	CB	IBAM	IB	GC	International	
	(KD thousand)						
Net interest income and net income from							
Islamic financing.....	215,757	109,643	875	124,316	57,199	181,434	689,224
Net operating income.....	291,554	157,114	28,574	151,184	46,423	220,668	895,517
Profit / (loss) for the period.....	178,266	60,305	15,690	62,677	(3,126)	112,180	425,992
Total assets.....	4,651,598	4,930,920	79,344	5,300,548	3,208,951	11,099,392	29,270,753
Total liabilities.....	5,447,815	2,294,546	22,447	4,647,367	795,608	11,803,810	25,011,593

	Year ended 31 December 2018						Total
	CPB	CB	IBAM	IB	GC	International	
	(KD thousand)						
Net interest income and net income from							
Islamic financing.....	207,653	134,980	624	124,117	52,553	170,526	690,453
Net operating income.....	278,403	182,090	26,675	144,740	42,051	209,260	883,219
Profit / (loss) for the period.....	166,706	48,347	14,715	56,210	(4,752)	112,723	393,949
Total assets.....	4,627,235	5,017,769	61,639	4,344,778	3,603,704	9,772,815	27,427,940
Total liabilities.....	4,996,658	2,481,949	8,588	3,858,818	1,606,956	10,773,661	23,726,630

	Year ended 31 December 2017						Total
	CPB	CB	IBAM	IB	GC	International	
	(KD thousand)						
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 period.....	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

Consumer and private banking

CPB's net operating income for the year ended 31 December 2019 amounted to KD 292 million compared to KD 278 million for the year ended 31 December 2018. The increase in net operating income of KD 13

million, or 4.7 per cent., principally reflected growth in net interest income from increased volumes of consumer loans and deposits and higher fee income. CPB's profit was KD 178 million for the year ended 31 December 2019 compared to KD 167 million for the year ended 31 December 2018. The increase in profit of KD 12 million, or 6.9 per cent., principally reflected higher net operating income and lower provisions for credit losses, offset in part by higher costs.

CPB's net operating income for the year ended 31 December 2018 amounted to KD 278 million compared to KD 259 million for the year ended 31 December 2017. The increase of KD 19 million, or 7.4 per cent., principally reflected growth in net interest income from increased volumes of consumer loans and deposits and higher fee income. CPB's profit was KD 167 million for the year ended 31 December 2018 compared to KD 149 million for the year ended 31 December 2017. The increase in profit of KD 17 million, or 11.6 per cent., principally reflected higher net operating income and lower provisions for credit losses.

Corporate banking

CB's net operating income for the year ended 31 December 2019 amounted to KD 157 million compared to KD 182 million for the year ended 31 December 2018. The decrease of KD 25 million, or 13.7 per cent., principally reflected lower loan volumes resulting from increased levels of loan repayments and tighter margins. CB's profit was KD 60 million for the year ended 31 December 2019 compared to KD 48 million for the year ended 31 December 2018. The increase of KD 12 million, or 24.7 per cent., principally reflected lower specific provisions, offset in part by lower net operating income.

CB's net operating income for the year ended 31 December 2018 amounted to KD 182 million compared to KD 189 million for the year ended 31 December 2017. The decrease of KD 7 million, or 3.8 per cent., principally reflected lower loan volumes resulting from increased levels of loan repayments. CB's profit was KD 48 million for the year ended 31 December 2018 compared to KD 111 million for the year ended 31 December 2017. The decrease in profit of KD 62 million, or 56.3 per cent., principally reflected higher provisions for credit losses.

Investment banking and asset management

IBAM's net operating income for the year ended 31 December 2019 amounted to KD 29 million compared to KD 27 million for the year ended 31 December 2018. The increase of KD 2 million, or 7.1 per cent., principally reflected higher fee income. IBAM's profit was KD 16 million for the year ended 31 December 2019 compared to KD 15 million for the year ended 31 December 2018. The increase of KD 1 million, or 6.6 per cent in profit principally reflected higher fee income, offset in part by higher costs.

IBAM's net operating income amounted to KD 27 million and its profit amounted to KD 15 million in each of the years ended 31 December 2018 and 31 December 2017.

Islamic banking

IB's net operating income amounted to KD 151 million for the year ended 31 December 2019 compared to KD 145 million for the year ended 31 December 2018. The increase of KD 6 million, or 4.5 per cent., principally reflected higher fee income and higher investment gains. IB's profit was KD 63 million for the year ended 31 December 2019 compared to KD 56 million for the year ended 31 December 2018. The increase of KD 6 million, or 11.5 per cent, principally reflected higher net operating income.

IB's net operating income amounted to KD 145 million compared to KD 130 million for the year ended 31 December 2017. The increase of KD 15 million, or 11.4 per cent., principally reflected strong growth in net Islamic financing income driven by increased volumes of corporate and consumer loans. IB's profit was KD 56 million for the year ended 31 December 2018 compared to KD 48 million for the year ended 31 December 2017. The increase in profit of KD 9 million, or 17.9 per cent, principally reflected strong growth in net operating income, in part offset by higher provisions.

Group centre

GC's net operating income for the year ended 31 December 2019 amounted to KD 46 million compared to KD 42 million for the year ended 31 December 2018. The increase of KD 4 million, or 10.4 per cent., principally reflected higher net interest income. GC's loss was KD 3 million for the year ended 31 December 2019 compared to KD 5 million for the year ended 31 December 2018. The decrease in loss of KD 2 million, or 34.2 per cent., principally reflected higher net operating income, offset in part by higher costs.

GC's net operating income for the year ended 31 December 2018 amounted to KD 42 million compared to KD 36 million for the year ended 31 December 2017. The increase of KD 6 million, or 15.6 per cent., principally reflected higher net interest income driven by increased benchmark rates and growth in Kuwait government treasury bonds, in part offset by lower net investment income. GC's loss was KD 5 million for the year ended 31 December 2018 compared to KD 75 million for the year ended 31 December 2017. The decrease in loss of KD 70 million, or 93.6 per cent., principally reflected lower provisions for credit losses.

International

International's net operating income for the year ended 31 December 2019 amounted to KD 221 million compared to KD 209 million for the year ended 31 December 2018. The increase in net operating income of KD 11 million, or 5.5 per cent. in net operating income principally reflected growth in net interest income from increased volumes of loans and debt investment securities. International's profit was KD 112 million for the year ended 31 December 2019 compared to KD 113 million for the year ended 31 December 2018. The decrease of KD 1 million, or 0.5 per cent. in net profit, principally reflected higher costs, offset in part by higher net operating income.

International's net operating income for the year ended 31 December 2018 amounted to KD 209 million compared to KD 181 million for the year ended 31 December 2017. International's profit was KD 113 million for the year ended 31 December 2018 compared to KD 95 million for the year ended 31 December 2017. The increase of KD 29 million, or 15.9 per cent. in net operating income and KD 18 million, or 19.0 per cent. in net profit, principally reflected growth in net interest income from increased volumes of loans and debt investment securities.

FINANCIAL POSITION

Assets

The following table shows data regarding the Group's assets as at the dates indicated.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	<i>(KD thousands)</i>	<i>(per cent.) (unaudited)</i>	<i>(KD thousands)</i>	<i>(per cent.)</i>	<i>(KD thousands)</i>	<i>(per cent.)</i>	<i>(KD thousands)</i>	<i>(per cent.)</i>
Assets								
Cash and short term funds.	4,404,865	14.5	3,787,173	12.9	2,966,707	10.8	2,743,640	10.5
Central Bank of Kuwait bonds.....	830,645	2.7	823,229	2.8	809,871	3.0	655,591	2.5
Kuwait Government treasury bonds.....	477,438	1.6	662,175	2.3	872,042	3.2	1,076,211	4.1
Deposits with banks.....	1,110,462	3.7	1,909,081	6.5	2,364,242	8.6	2,488,188	9.6
Loans, advances and Islamic financing to customers.....	17,634,436	58.0	16,552,598	56.5	15,503,402	56.5	14,502,609	55.7
Investment securities.....	4,633,922	15.3	4,214,562	14.4	3,678,032	13.4	3,348,996	12.9
Investment in associates....	6,257	0.0	35,297	0.1	31,425	0.1	63,187	0.2
Land, premises and equipment.....	425,652	1.4	433,540	1.5	362,801	1.3	324,277	1.2
Goodwill and intangible assets.....	583,712	1.9	582,927	2.0	578,973	2.1	581,906	2.2
Other assets.....	275,700	0.9	270,171	0.9	260,445	0.9	249,996	1.0
Total assets.....	30,383,089	100.0	29,270,753	100.0	27,427,940	100.0	26,034,601	100.0

The Group's total assets increased by 3.8 per cent. to KD 30.4 billion as at 30 September 2020 from KD 29.3 billion as at 31 December 2019. The increase in total assets was principally attributable to an increase in loans, advances and Islamic financing to customers, investment securities and the impact of the BLME consolidation.

The Group's total assets increased by 6.7 per cent. to KD 29.3 billion as at 31 December 2019 from KD 27.4 billion as at 31 December 2018. The increase in total assets was principally attributable to an increase in loans, advances and Islamic financing to customers, which grew by KD 1.0 billion, or 6.8 per cent., principally as a result of growth from Boubyan Bank and international operations as well as an increase in cash and short term funds, which grew by KD 0.8 billion, or 27.7 per cent.

The Group's total assets increased by 5.4 per cent. to KD 27.4 billion as at 31 December 2018 from KD 26.0 billion as at 31 December 2017. The increase in total assets was principally attributable to an increase in

loans, advances and Islamic financing to customers, which grew by KD 1.0 billion, or 6.9 per cent, principally as a result of growth from Boubyan Bank and international operations.

The Group's three most significant asset classes are its loans, advances and Islamic financing to customers, its investment securities and its cash and short-term funds.

Loans, advances and Islamic financing to customers

The Group's total customer loan portfolio comprising loans, advances and Islamic financing provided to customers (net of provisions) was KD 17.6 billion as at 30 September 2020.

The table below shows the Group's customer loan portfolio, provisions and loan to deposit ratio as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	As at 30 September	As at 31 December		
	2020	2019	2018	2017
	<i>(KD in thousands, except percentages)</i>			
Gross loans ⁽¹⁾	18,295,262	17,061,334	16,009,110	15,118,122
Less: provisions.....	(660,826)	(508,736)	(505,708)	(615,513)
Net loans⁽²⁾.....	17,634,436	16,552,598	15,503,402	14,502,609
Net loans/customer and financial institution deposits.....	84.4%	83.2%	81.1%	78.5%
Net loans/total deposits ⁽³⁾	70.5%	68.8%	67.6%	66.7%

⁽¹⁾ Gross loans comprise total loans, advances and Islamic financing provided to customers.

⁽²⁾ Net loans comprise gross loans less provisions.

⁽³⁾ Total deposits comprise customer deposits, due to banks and other financial institutions and certificates of deposit issued.

The Group's customer loan portfolio is principally denominated in Kuwaiti dinar, although loans are also made in U.S. dollars, Egyptian pounds, pounds sterling and euro, among other currencies. The Group believes that there is only limited structural cross-currency exposure as the majority of its assets and liabilities are match-funded in currency terms. In addition, the Group hedges a part of its currency exposure through the use of derivative contracts, such as forward foreign exchange contracts.

The majority of loans within the Group's customer loan portfolio in Kuwait contain terms permitting it to adjust the interest rate payable by the customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Group believes that there is only limited structural exposure to interest rate movements as the majority of its assets and liabilities re-price within one year. However, the Group's experience is that, whilst its assets generally re-price immediately upon a change in the CBK discount rate, there is a time lag on deposit re-pricing which means that its net interest margin improves in an increasing interest rate environment. In the case of certain retail loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount.

The Group may also, from time to time, enter into interest rate swaps to manage its interest rate exposure.

Distribution of customer loans by maturity

The table below shows the distribution of the Group's net customer loan portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December 2019, 2018 and 2017.

	Up to 3 months	3 to 12 months	Over 1 year	Total
	<i>(KD thousands)</i>			
31 December 2019.....	4,082,071	2,653,219	9,817,308	16,552,598
31 December 2018.....	4,170,497	2,091,383	9,241,522	15,503,402
31 December 2017.....	4,490,941	1,775,826	8,235,842	14,502,609

Distribution of customer loans by geographical region

The table below shows the distribution of the Group's gross customer loan portfolio by geographical region as at 31 December 2019, 2018 and 2017.

	<u>MENA</u>	<u>North America</u>	<u>Europe</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
	<i>(KD thousands)</i>					
31 December 2019.....	15,306,586	387,169	729,331	379,836	258,412	17,061,334
31 December 2018.....	14,746,389	270,815	446,555	271,185	274,166	16,009,110
31 December 2017.....	13,996,385	295,021	411,929	170,231	244,556	15,118,122

Distribution of customer type

The table below shows the distribution of the Group's customer loan portfolio by customer type as at 31 December 2019, 2018 and 2017.

	<u>Gross exposure</u>	<u>Specific provisions</u>	<u>Exposure net of provisions</u>
	<i>(KD thousands)</i>		
31 December 2019			
Corporate.....	11,423,765	(43,415)	11,380,350
Retail.....	5,637,569	(68,251)	5,569,318
Customer loan portfolio.....	17,061,334	(111,666)	16,949,668
Less general provision.....	—	—	(397,070)
Total.....	—	—	16,552,598
31 December 2018			
Corporate.....	10,694,324	(50,875)	10,643,449
Retail.....	5,314,786	(69,865)	5,244,921
Customer loan portfolio.....	16,009,110	(120,740)	15,888,370
Less general provision.....	—	—	(384,968)
Total.....	—	—	15,503,402
31 December 2017			
Corporate.....	10,126,012	(43,488)	10,082,524
Retail.....	4,992,110	(66,138)	4,925,972
Customer loan portfolio.....	15,118,122	(109,626)	15,008,496
Less general provision.....	—	—	(505,887)
Total.....	—	—	14,502,609

Distribution of the Group's maximum exposure to credit risk by sector

The Group's maximum exposure to credit risk comprises its customer loan portfolio plus its debt investments, deposits with banks and certain other assets at year end. The table below shows the breakdown by industry sector of the Group's maximum exposure to credit risk as at 31 December 2019, 2018 and 2017.

	<u>As at 31 December</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<i>(KD thousands)</i>		
Trading.....	2,106,532	2,163,383	2,300,304
Manufacturing.....	2,797,628	2,368,919	2,224,598
Banks and other financial institutions.....	10,541,633	9,908,859	9,224,294
Construction.....	1,455,836	1,404,411	1,308,088
Real estate.....	3,463,146	3,280,586	3,078,956
Retail.....	5,506,856	5,185,575	4,869,811
Government.....	3,571,248	3,361,079	3,318,470
Others.....	3,538,473	3,343,743	3,152,163
Total.....	32,981,352	31,016,555	29,476,684

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2019, the Group's exposure to banks and other financial institutions, before taking into account any collateral held or credit enhancements, accounted for 32.0 per cent. of its maximum exposure to credit risk compared to 31.3 per cent. as at 31 December 2018 and 31.9 per cent. as at 31 December 2017. Approximately 47.9 per cent. of the Group's exposure to banks and other financial institutions as at 31

December 2019 was in the form of short-dated inter-bank placements (48.7 per cent. as at 31 December 2018 and 52.2 per cent. as at 31 December 2017) and approximately 17.4 per cent. was in the form of trade finance exposures (19.2 per cent. as at 31 December 2018 and 19.7 per cent. as at 31 December 2017).

The Group's second major sector of credit exposure is the retail segment, which accounted for 16.7 per cent. of the Group's maximum exposure to credit risk at 31 December 2019, and represented loans made to a diverse base of individual borrowers and a small number of small and medium sized enterprises ("SMEs"). These exposures mainly comprise a range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange credit facilities to SMEs and other branch-related services.

The government sector constituted 10.8 per cent. of the Group's maximum exposure to credit risk as at 31 December 2019 and represented exposures to Kuwait government treasury bonds, investment securities issued by governments and government entities and credit facilities to government entities.

The real estate sector constituted 10.5 per cent. of the Group's maximum exposure to credit risk at 31 December 2019. As per CBK regulations, the real estate segment includes not only credit facilities granted to companies engaged in real estate business but also to borrowers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Group's exposure to this sector is also spread across Kuwait and certain major cities internationally, including in the United States and the United Kingdom. In all cases, the Group has full recourse to all the assets and resources of the borrower concerned, which, with only limited exceptions, includes assets beyond those being financed.

The Group's loans that finance the trading of securities listed on the Kuwait Stock Exchange are regulated and monitored by the CBK which requires that this lending does not exceed the lower of 10 per cent. of the total credit facilities portfolio granted to resident customers and 25 per cent. of the Group's regulatory capital.

Investment securities

The Group's investment securities portfolio comprises treasury bills and bonds (with maturities ranging from short-term to in excess of three years) issued by the CBK on behalf of the Kuwaiti Ministry of Finance, bonds issued by the CBK (with maturities of less than one year), a portfolio of investments at amortised cost and fair value through other comprehensive income and equity investment securities and certain other investments. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The Group adopted IFRS 9 with effect from 1 January 2018. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The Group has not restated comparative information for 2017 as permitted by the transitional provisions of IFRS 9. Accordingly, the table below shows the Group's investment securities portfolio as at 30 September 2020, as at 31 December 2019 and as at 31 December 2018, reflecting the IFRS 9 investment classification. See note 24 to the 2018 Financial Statements for details of the reclassification of the Group's investments following its adoption of IFRS 9.

	<u>As at 30</u> <u>September 2020</u>	<u>As at 31</u> <u>December 2019</u>	<u>As at 31</u> <u>December 2018</u>
	<i>(KD thousands)</i>		
	<i>(Unaudited)</i>		
CBK bonds (amortised cost).....	830,645	823,229	809,871
Kuwait government treasury bonds (amortised cost).....	477,438	662,175	872,042
Non Kuwaiti government debt securities			
Amortised cost.....	794,954	810,156	848,811
Fair value through other comprehensive income	1,799,160	1,661,773	1,271,827
Non-government debt securities			
Fair value through other comprehensive income	1,824,394	1,510,270	1,371,165
Equities			
Fair value through other comprehensive income	36,219	43,125	61,999
Fair value through statement of income.....	24,380	26,935	24,575
Other investments			
Fair value through statement of income.....	154,815	162,303	99,655
Total	<u>5,942,005</u>	<u>5,699,966</u>	<u>5,359,945</u>

The table below shows the Group's investment securities portfolio as at 31 December 2017 the IAS 39 investment classification.

	As at 31 December 2017
	<i>(KD thousands)</i>
CBK bonds (held to maturity).....	655,591
Kuwait government treasury bonds	
Held to maturity.....	919,218
Available for sale	156,993
Non Kuwaiti government debt securities	
Held to maturity.....	138,493
Available for sale	1,745,472
Non-government debt securities	
Available for sale	1,217,376
Equities	
Available for sale	62,458
Fair value through statement of income.....	3,477
Other investments	
Available for sale	145,789
Fair value through statement of income.....	35,931
Total	5,080,798

The Group's investment policy requires all investments in debt securities to have an investment grade rating, except for sovereign securities denominated and funded in local currencies in countries where the Group has an operating presence.

Excluding Central Bank of Kuwait bonds and Kuwait Government Treasury bonds, the Group's investment portfolio comprised 56.0 per cent. non-Kuwait government debt, 39.4 per cent. non-government debt, 1.3 per cent. equities and 3.3 per cent. other investments as at 30 September 2020, of which 79.0 per cent. were held at fair value through other comprehensive income, 17.2 per cent. were held at amortised cost and 3.9 per cent. were held at fair value through profit or loss.

Cash and short term funds

The table below shows the Group's cash and short term funds as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	<i>(unaudited)</i>		<i>(KD in thousands, except percentage of total columns)</i>					
Cash on hand.....	217,214	4.9	235,524	6.2	216,987	7.3	195,249	7.1
Current account with other banks	1,342,941	30.5	961,974	25.4	1,074,270	36.2	1,264,834	46.1
Money at call.....	767,287	17.4	361,590	9.5	394,274	13.3	183,985	6.7
Balances with the Central Bank of Kuwait.....	433,518	9.8	298,046	7.9	157,481	5.3	84,207	3.1
Deposits and murabaha with banks maturing within seven days.....	1,655,506	37.6	1,930,843	51.0	1,124,295	37.9	1,015,365	37.0
Expected credit losses.....	(11,601)	(0.3)	(804)	(0.0)	(600)	(0.0)	-	-
Total cash and short term funds.....	4,404,865	100.0	3,787,173	100.0	2,966,707	100.0	2,743,640	100.0

In 2019, the Group recognised an ECL of KD 0.8 million in respect of its cash and short-term funds. In 2018, the Group recognised an ECL of KD 0.6 million in respect of its cash and short-term funds.

The Group's cash and short-term funds, consisting of cash on hand, current accounts with other banks, money at call, balances with the CBK and deposits and murabaha with banks maturing within seven days, was KD 4.4 billion as at 30 September 2020 compared to KD 3.8 billion as at 31 December 2019, KD 3.0 billion as at 31 December 2018, and KD 2.7 billion as at 31 December 2017.

The Group's cash and short-term funds increased by 16.3 per cent. to KD 4.4 billion as at 30 September 2020 from KD 3.8 billion as at 31 December 2019. The increase principally reflected an increase in current account with other banks, money at call and balances with Central bank of Kuwait. The Group's cash and short term funds increased by 27.7 per cent. to KD 3.8 billion as at 31 December 2019 from KD 3.0 billion as at 31 December 2018. The increase principally reflected increases in deposits and murabaha with banks maturing within seven days and balances with the Central Bank of Kuwait and was partly offset by a fall in current accounts with other banks.

Total liabilities

The following table presents data regarding the Group's liabilities as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	(KD thousands)	(per cent.) (unaudited)	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)	(KD thousands)	(per cent.)
Liabilities								
Due to banks and other financial institutions.....	6,572,322	24.9	7,581,929	30.3	8,090,484	34.1	7,469,303	33.2
Customer deposits.....	17,499,220	66.3	15,930,577	63.7	14,388,836	60.6	13,779,607	61.3
Certificates of deposit issued.....	948,696	3.6	538,611	2.2	451,128	1.9	490,835	2.2
Global medium term notes.....	235,249	0.9	227,159	0.9	220,124	0.9	221,173	1.0
Subordinated Tier 2 bonds.....	124,816	0.5	124,801	0.5	124,768	0.5	124,734	0.6
Sukuk issued.....	230,410	0.9	-	-	-	-	-	-
Other liabilities.....	775,235	2.9	608,516	2.4	451,290	1.9	387,848	1.7
Total liabilities.....	26,385,948	100.0	25,011,593	100.0	23,726,630	100.0	22,473,500	100.0

The Group's total liabilities increased by 5.5 per cent. to KD 26.4 billion as at 30 September 2020 from KD 25.0 billion at 31 December 2019. The increase was principally due to an increase in customer deposits, certificates of deposits and sukuk, partially offset by a decrease in due to banks and other financial institutions.

The Group's total liabilities increased by 5.4 per cent. to KD 25.0 billion as at 31 December 2019 from KD 23.7 billion as at 31 December 2018 principally due to an increase in customer deposits, partially offset by a fall in bank and other financial institution deposits. The Group's total liabilities increased by 5.6 per cent. to KD 23.7 billion as at 31 December 2018 compared to KD 22.5 billion as at 31 December 2017. The increase was principally due to an increase in both customer and bank and other financial institution deposits.

The Group has two principal liabilities classes, customer deposits and due to banks and other financial institutions.

Customer deposits

The Group's customer deposits comprise current and demand accounts, savings accounts and time deposits.

The Group's current and demand accounts are mostly non-interest bearing and amounts may be withdrawn from these accounts at any time without notice. The Group's savings accounts are interest-bearing accounts and amounts may also be withdrawn from these accounts at any time without notice.

The Group believes that its current, demand and savings accounts are diversified and constitute a stable and secure source of low-cost funding. The Group's current, demand and savings accounts (collectively, "sight deposits") form a significant proportion of its total customer deposits.

The Group accepts time deposits for a range of periods up to five years.

The following table shows the Group's customer deposits by location as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	(unaudited)		(KD thousands)					
Domestic	13,066,309		11,597,598		10,728,814		10,135,871	
International	4,432,911		4,332,979		3,660,022		3,643,736	
Total customer deposits.....	17,499,220		15,930,577		14,388,836		13,779,607	

Customer deposits increased by 9.8 per cent. to KD 17.5 billion as at 30 September 2020 from KD 15.9 billion as at 31 December 2019. The increase was principally attributable to an increase in sight and Islamic banking deposits.

Customer deposits increased by 10.7 per cent. to KD 15.9 billion as at 31 December 2019 from KD 14.4 billion as at 31 December 2018. The increase was principally attributable to an increase in time and Islamic

banking deposits. Customer deposits increased by 4.4 per cent. to KD 14.4 billion as at 31 December 2018 from KD 13.8 billion as at 31 December 2017. The increase was principally attributable to an increase in time and Islamic banking deposits.

Due to banks and other financial institutions

Amounts due to banks and other financial institutions declined by 13.3 per cent. to KD 6.6 billion as at 30 September 2020 compared to KD 7.6 billion as at 31 December 2019. The decrease was primarily attributable to a decline in time and Islamic banking deposits.

Amounts due to banks and other financial institutions decreased by 6.3 per cent. to KD 7.6 billion as at 31 December 2019 from KD 8.1 billion as at 31 December 2018. The decrease was primarily attributable to a decrease in time and sight deposits. Amounts due to banks and other financial institutions increased by 83 per cent. to KD 8.1 billion as at 31 December 2018 from KD 7.5 billion as at 31 December 2017. The increase was primarily attributable to an increase in time and Islamic banking deposits.

LIQUIDITY, FUNDING AND CAPITAL

Liquidity

The Group's liquidity needs arise primarily from making loans, advances and Islamic finance available to customers, the payment of expenses and investments in securities. The Group's liquidity needs have been funded principally through deposits and operating cash flow, including interest and profit income received on its customer loan portfolio and its portfolio of debt investment securities.

The following table shows the composition of the Group's liquid assets at the dates indicated.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	<i>(unaudited)</i>		<i>(KD thousands, except percentage contribution columns)</i>					
Cash and short term funds.....	4,404,865	41.3	3,787,173	35.8	2,966,707	30.1	2,743,640	27.0
CBK Bonds.....	830,645	7.8	823,229	7.8	809,871	8.2	655,591	6.4
Kuwait Government Treasury bonds....	477,438	4.5	662,175	6.3	872,042	8.9	1,076,211	10.6
Deposits with banks.....	1,110,462	10.4	1,909,081	18.0	2,364,242	24.0	2,488,188	24.5
Investment securities ⁽¹⁾	3,838,968	36.0	3,404,406	32.2	2,829,221	28.7	3,210,503	31.6
Total liquid assets.....	10,662,378	100.0	10,586,064	100.0	9,842,083	100.0	10,174,133	100.0

⁽¹⁾ Excludes investment securities held at amortised cost or, prior to 1 January 2018, held to maturity.

Capital expenditure

As at 30 September 2020, the Group had commitments in respect of capital expenditure amounting to KD 58 million. Management has allocated the necessary resources in respect of these commitments and believes that future income and funding will be sufficient to cover these commitments.

Funding

The Group's principal sources of funding are its customer deposits and, to a lesser extent, interbank deposits. The Group also has access to a pool of unencumbered and liquid securities in the form of treasury bills and bonds and CBK bonds as well as quoted available for sale debt and equity securities that it can access to meet liquidity needs, in addition to its cash balances and placements with central banks and other financial institutions.

The Group's customer deposits were KD 17 billion, or 66.3 per cent. of its total liabilities, as at 30 September 2020. Deposits from the Kuwaiti government and its related agencies have approximated 15 to 28 per cent. of the Group's total funding over the period from 1 January 2017 to 30 September 2020.

The Group has no material outstanding borrowings from banks. Outstanding debt in the form of global medium term notes and subordinated Tier 2 bonds at 30 September 2020 was KD 235 million and KD 125 million, respectively. Short-term certificates of deposit issued by the Group and outstanding as at 30 September 2020 were KD 949 million. Perpetual Tier 1 securities of KD 211 million (U.S.\$700 million) issued in 2015 and KD 228 million (U.S.\$750 million) issued in 2019 form part of the Group's equity funding.

On 18 November 2020, the Group announced its successful redemption of the KD 125 million subordinated Tier 2 bonds issued on 18 November 2015 and its issuance of KD 150 million subordinated Tier 2 bonds due 2030.

The table below shows the Group's funding in the form of customer deposits, due to banks and other amounts due to financial institutions, certificates of deposit issued, global medium term notes and subordinated Tier 2 bonds as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	As at 30 September		As at 31 December					
	2020		2019		2018		2017	
	<i>(unaudited)</i>		<i>(KD thousands, except percentage contribution columns)</i>					
Customer deposits.....	17,499,220	68.3	15,930,577	65.3	14,388,836	61.8	13,779,607	62.4
Due to banks and other financial institutions.....	6,572,322	25.7	7,581,929	31.1	8,090,484	34.8	7,469,303	33.8
Certificates of deposit issued.....	948,696	3.7	538,611	2.2	451,128	1.9	490,835	2.2
Global medium term notes.....	235,249	0.9	227,159	0.9	220,124	0.9	221,173	1.0
Subordinated Tier 2 bonds.....	124,816	0.5	124,801	0.5	124,768	0.5	124,734	0.6
Sukuk issued.....	230,410	0.9	-	-	-	-	-	-
Total funding.....	25,610,713	100.0	24,403,077	100.0	23,275,340	100.0	22,085,652	100.0

As at 30 September 2020, the Group's customer deposits accounted for 68.3 per cent. of its total funding.

The table below shows the maturity profile of the Group's total funding as at 30 September 2020 and 31 December 2019, 2018 and 2017. This analysis is based on contractual cash flows and maturity data.

	Up to 3	3 to 12 months	Over 1 year	Total
	months			
	<i>(KD thousands)</i>			
As at 30 September 2020				
Due to banks and other financial institutions.....	5,295,285	1,254,319	22,718	6,572,322
Customer deposits.....	14,507,760	2,513,305	478,155	17,499,220
Certificates of deposit issued.....	836,227	112,419	-	948,696
Global medium term notes.....	-	-	235,249	235,249
Subordinated Tier 2 bonds.....	-	-	124,816	124,816
Sukuk issued.....	-	-	230,410	230,410
Total.....	20,639,322	3,880,043	1,091,348	25,610,713
As at 31 December 2019				
Due to banks and other financial institutions.....	5,717,489	1,736,642	127,798	7,581,929
Customer deposits.....	12,359,638	2,953,053	617,886	15,930,577
Certificates of deposit issued.....	327,415	211,196	-	538,611
Global medium term notes.....	-	-	227,159	227,159
Subordinated Tier 2 bonds.....	-	-	124,801	124,801
Total.....	18,404,542	4,900,891	1,097,644	24,403,077
As at 31 December 2018				
Due to banks and other financial institutions.....	6,097,926	1,675,433	317,125	8,090,484
Customer deposits.....	11,406,259	2,361,167	621,410	14,388,836
Certificates of deposit issued.....	329,808	116,771	4,549	451,128
Global medium term notes.....	-	-	220,124	220,124
Subordinated Tier 2 bonds.....	-	-	124,768	124,768
Total.....	17,833,993	4,153,371	1,287,976	23,275,340
As at 31 December 2017				
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 issued.....	-	-	221,173	221,173
Subordinated Tier 2 bonds.....	-	-	124,734	124,734
Total.....	16,892,354	3,632,355	1,560,943	22,085,652

The Group has been actively working on diversifying its funding sources by targeting new funds from regional and international clients. While there has been a notable decline in deposit concentration ratios, the Group's deposit base is, at least in the near future, expected to remain relatively dependent on Kuwaiti government and quasi-government entities given the dominant role of the government in the oil sector and its significance to the Kuwait economy. Such deposits are booked for relatively long tenors and are well spread across different maturity dates so early signs of deposit withdrawals should provide the Group with sufficient time to consider other alternatives. The Group also enjoys a large base of smaller deposits with

varying maturities from retail and corporate clients, which significantly reduces the concentration risk measured in terms of deposits from top clients to the total funding pool.

CAPITAL ADEQUACY

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by Management and are also governed by guidelines of the Basel Committee on Banking Supervision (the "**Basel Committee**") as adopted by the CBK.

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

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

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

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with externally-imposed capital requirements. The Group aims to ensure adherence to the CBK's requirements by monitoring its capital adequacy and adopting both a capital forecasting process that ensures pro-active action is taken where necessary and a strategy that ensures a sufficient capital buffer above minimum required levels is maintained at all times. This process is supported by the use of proprietary capital-planning methodology, which takes into consideration regulatory capital requirements, rating agency views, stress-testing and bottom-up views of business plans.

The table below sets out the minimum capital requirements and associated levels of regulatory capital expressed as a percentage of risk-weighted assets.

Minimum Capital Requirement*	CET 1	Tier 1	Total
30 September 2020**	9.0%	10.5%	12.5%
31 December 2019	11.5%	13.0%	15.0%
31 December 2018	11.5%	13.0%	15.0%
31 December 2017	11.5%	13.0%	15.0%

* Includes a CET 1 Capital Conservation buffer of 2.5 per cent. and a CET 1 Domestic Systemically-Important Bank buffer of 2 per cent

** Reflects temporary adjustments/ reductions of 2.5 per cent., applicable to and including 31 December 2020.

Effective 31 December 2016, the minimum total capital requirement for the Kuwait banking sector generally was raised to 13 per cent. from 12.5 per cent. The Group, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2 per cent. at all levels. As at the date of this Prospectus and for the years ended 31 December 2019, 2018 and 2017, the countercyclical capital buffer, ranging from 0 per cent. to 2.5 per cent., was not required in the minimum capital requirements and the CBK has not indicated when the countercyclical capital buffer may be required. To the extent such buffer is required, Basel Committee guidelines permit a lead period of 12 months to comply. In response to the COVID-19 crisis, the CBK has temporarily relaxed the Capital Conservation Buffer of 2.5 per cent. in the form of the CET1 until 31 December 2020. Pursuant to the consumer loan deferral program, the CBK has allowed, as part of the COVID-19 support measures, the loss of KD 130 million charged directly to Retained Earnings in June 2020, to be amortised equally over 4 years starting 2021 for Regulatory Capital purposes.

With effect from the quarterly reporting period ending 30 September 2019, the CBK has amended certain sections of its Basel III Capital Regulations relating to claims on sovereign and public-sector entities outside

Kuwait. In particular, claims on a sovereign outside Kuwait denominated in the local currency will be risk-weighted at 0 per cent. only to the extent the claim represents mandatory liquidity requirements in the jurisdiction concerned, provided the local regulator also allows such treatment and the Group has a local operating presence. All claims on a sovereign beyond the liquidity requirements in its local currency will be risk-weighted based strictly on the relevant credit rating(s) assigned by accredited external credit assessment institutions, and at 100 per cent. if the sovereign is not rated. Claims on PSEs outside Kuwait, will be risk-weighted one grade lower than their sovereign. In the light of such regulatory amendments, the Group has made adjustments to, and refined its capital, business portfolios and plans.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 30 September 2020 and 31 December 2019, 2018 and 2017 (determined in accordance with Basel III as implemented in Kuwait). The reported capital ratios as at interim period-end dates within a year are lower than those for year-end dates as retained year-to-date profits are added to the regulatory capital base only at the year-end while asset growth during interim periods is factored into the interim risk weighted asset calculations. The CBK has allowed, as part of the COVID-19 support measures, the loss to Retained Earnings arising from the consumer loan deferral, to be amortised equally over 4 years starting 2021 for regulatory capital purposes. See note 15 (*Impact of COVID-19*) to the Interim Financial Statements for further details.

	<u>30 September</u>	<u>31 December</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<i>(KD thousands, except percentages)</i>			
Risk-weighted assets:				
Credit risk-weighted assets	19,115,594	18,492,659	16,181,199	14,966,126
Operational risk-weighted assets	1,563,517	1,567,314	1,468,038	1,372,176
Market risk-weighted assets	384,591	368,046	285,913	253,404
Total risk-weighted assets ⁽¹⁾	21,063,702	20,428,019	17,935,150	16,591,706
Capital required ⁽²⁾	2,632,963	3,064,203	2,690,273	2,488,756
<i>Capital available</i>				
CET 1 capital ⁽³⁾	2,693,073	2,754,674	2,478,695	2,362,174
Additional Tier 1 capital ⁽⁴⁾	493,096	486,245	257,780	253,048
Tier 1 capital⁽⁵⁾	3,186,169	3,240,919	2,736,475	2,615,222
Tier 2 capital ⁽⁶⁾	400,953	386,983	353,724	337,052
Total capital	3,587,122	3,627,902	3,090,199	2,952,274
CET 1 capital adequacy ratio ⁽⁷⁾⁽⁸⁾	12.8%	13.5%	13.8%	14.2%
Tier 1 capital adequacy ratio ⁽⁷⁾⁽⁹⁾	15.1%	15.9%	15.3%	15.8%
Total capital adequacy ratio ⁽⁷⁾⁽¹⁰⁾	17.0%	17.8%	17.2%	17.8%

⁽¹⁾ Risk-weighted assets are calculated under the standardised approach.

⁽²⁾ Capital required comprises the minimum total capital requirement of 15 per cent. for all periods except for 30 September 2020 which is at 12.5 per cent.

⁽³⁾ CET 1 capital comprises share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests net of regulatory adjustments.

⁽⁴⁾ Additional Tier 1 capital comprises Perpetual Tier 1 Notes classified as equity and certain additional eligible portion of non-controlling interests.

⁽⁵⁾ Tier 1 capital comprises CET 1 capital and Additional Tier 1 capital which includes eligible portions of non-controlling interests.

⁽⁶⁾ Tier 2 capital comprises Subordinated Tier 2 Bonds classified as debt, the allowed portions of general provisions and certain additional eligible non-controlling interests.

⁽⁷⁾ Calculated in accordance with the requirements of the CBK and the capital adequacy regulations issued by the CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014.

⁽⁸⁾ CET 1 capital adequacy ratio is defined as CET 1 capital divided by risk-weighted assets at a given date.

⁽⁹⁾ Tier 1 capital adequacy ratio is defined as Tier 1 capital resources divided by risk-weighted assets at a given date.

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

The Group is also subject to a CBK Basel III financial leverage ratio requirement of 3 per cent. The Group's financial leverage ratio was 9.6 per cent. as at 30 September 2020, 10.2 per cent. as at 31 December 2019, 9.2 per cent. as at 31 December 2018 and 9.2 per cent. as at 31 December 2017.

COMMITMENT AND CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of funding commitments it has made as well in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these commitments and contingent liabilities as at 30 September 2020 and 31 December 2019, 2018 and 2017.

	30 September	31 December		
	2020	2019	2018	2017
		<i>(KD thousands)</i>		
	<i>(unaudited)</i>			
Guarantees	3,822,322	3,891,746	3,707,656	3,755,718
Irrevocable commitments to extend credit	1,209,271	701,471	615,778	713,129
Letters of credit	405,308	459,233	456,359	328,943
Acceptances	142,152	237,145	223,920	144,001
	<u>5,579,063</u>	<u>5,289,595</u>	<u>5,003,713</u>	<u>4,941,791</u>

Guarantees issued represent irrevocable assurances that the Group will make payment in the event that a customer fails to meet its performance-related or financial obligations to third parties.

Irrevocable commitments to extend credit include commitments to extend credit which are undrawn and which are irrevocable over the life of the facility or are revocable only in response to a material adverse change. Undrawn credit lines to customers represent unused portions of authorisations to extend credit in the form of loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a corporate customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, generally relate to trade and may be collateralised by the underlying shipments of goods to which they relate, by cash deposits or otherwise.

Acceptances represent a type of irrevocable credit that is payable under a time draft on or after a specific date, if the terms of the credit has been complied with.

The total outstanding contractual amount of guarantees, undrawn credit lines, letters of credit, and acceptances does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

The table below shows the Group's other credit-related and commercial commitments based on contractual repayment arrangements as at 31 December 2019, 2018 and 2017.

	Up to 3 months	3 to 12 months	Over 1 year	Total
		<i>(KD thousands)</i>		
As at 31 December 2019				
Contingent liabilities.....	1,029,923	1,392,635	2,165,566	4,588,124
Irrevocable commitments.....	72,132	149,425	479,914	701,471
Total	<u>1,102,055</u>	<u>1,542,060</u>	<u>2,645,480</u>	<u>5,289,595</u>
As at 31 December 2018				
Contingent liabilities.....	933,619	1,277,533	2,176,783	4,387,935
Irrevocable commitments.....	77,355	166,203	372,220	615,778
Total	<u>1,010,974</u>	<u>1,443,736</u>	<u>2,549,003</u>	<u>5,003,713</u>
As at 31 December 2017				
Contingent liabilities.....	870,969	1,130,897	2,226,796	4,228,662
Irrevocable commitments.....	118,216	140,253	454,660	713,129
Total	<u>989,185</u>	<u>1,271,150</u>	<u>2,681,456</u>	<u>4,941,791</u>

In addition to the foregoing, the Group has commitments in respect of capital expenditure amounting to KD 58 million as at 30 September 2020 compared to KD 57 million as at 31 December 2019, KD 36 million as at 31 December 2018 and KD 60 million as at 31 December 2017.

CASH FLOWS

The following table shows certain information about the consolidated cash flows of the Group for the periods indicated.

	Nine months ended 30 September		Year ended 31 December		
	2020	2019	2019	2018	2017
	(unaudited)				
	(KD thousands)				
Net cash from operating activities.....	985,859	1,088,556	1,300,724	840,328	256,796
Net cash (used in) investing activities.....	(345,847)	(323,116)	(553,717)	(430,921)	(237,064)
Net cash (used in)/ from financing activities.....	(22,320)	(152,356)	73,459	(186,340)	36,945
Net increase/(decrease) in cash and short term funds.....	617,692	613,084	820,466	223,067	56,677
Cash and short term funds at the beginning of the period.....	3,787,173	2,966,707	2,966,707	2,743,640	2,686,963
Cash and short term funds at the end of the period.....	4,404,865	3,579,791	3,787,173	2,966,707	2,743,640

Net cash from operating activities

Net cash from operations for the nine months ended 30 September 2020 was KD 986 million compared to net cash from operations of KD 1,089 million for the corresponding period in 2019. The principal contributors to net cash from operating activities were operating profit and changes in operating assets and liabilities. The decrease in cash from operating activities principally reflected changes in operating assets and liabilities.

Net cash from operating activities for 2019 was KD 1,301 million compared to KD 840 million for 2018 and KD 257 million for 2017. The increase in the Group's net cash inflow from operating activities in 2019 and 2018, in each case compared to the prior year, principally reflected changes in operating assets and liabilities.

Net cash (used in)/ from investing activities

Net cash used in investing activities for the nine months ended 30 September 2020 was KD 346 million compared to net cash used in investing activities of KD 323 million for the corresponding period in 2019. The principal investment activities in each period were purchases and sales or redemptions of investment securities. The increase in net cash used in investment activities in the 2020 period compared to the 2019 period was mainly due to an increase in the net purchase of investment securities, partly offset by the proceeds on sale of fixed assets.

Net cash used in investing activities for 2019 was KD 554 million compared to KD 431 million in 2018 and KD 237 million in 2017. The principal investment activities in each year were acquisitions and sales or redemptions of investment securities. In 2019 and 2018, the increase in net cash used in investment activities compared to the previous year was mainly due to lower sales/redemptions of investment securities.

Net cash (used in)/ from financing activities

Net cash used in financing activities for the nine months ended 30 September 2020 was KD 22 million compared to KD 152 million for the corresponding period in 2019. In each period the principal cash outflow was dividends paid. The decrease in net cash used in financing activities in the 2020 period compared to the 2019 period was mainly due to proceeds from the issuance of Sukuk by a subsidiary.

Net cash from financing activities for 2019 was KD 73 million compared to net cash used in financing activities of KD 186 million in 2018 and net cash from financing activities of KD 37 million in 2017. In each year, the principal outflow was dividends paid. In 2019, this was offset by the proceeds from the issue of perpetual Tier 1 securities and Capital increase in a subsidiary contributed by non – controlling interest, and in 2017 this was offset by significant cash inflows from the issuance of global medium term notes.

RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with the board members and executive officers of the Bank, their close family members and companies controlled by them or their close family members as well as with associates of the Group. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. On this basis, the Group determined that no shareholder had significant influence and therefore no shareholder related party transactions were disclosed. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including interest rates and collateral, as those

prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Lending to board members and their related parties is secured by tangible collateral in accordance with CBK regulations.

The Group adheres to CBK guidelines on lending to related parties. Credit facilities to Board members can only be approved under conditions specified by the CBK which include the following:

- all facilities to Board members must be approved for granting, renewing or modifying only by the Bank's Board of Directors and this authority cannot be delegated to a committee or authority;
- the approval surrounding granting, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Bank must acquire adequate collateral as stipulated in the guidelines.

Further credit extensions to connected and related parties are also subject to adherence to the overall regulatory concentration limits which include that the total related party exposures should not exceed 50 per cent. of a bank's capital base.

Further information on the Group's related party transactions is set out in note 29 to each of the Annual Financial Statements.

As at the date of this Prospectus, the Group is not expecting and is not in the process of concluding any potential transactions of a material nature to be made with its related parties, other than those activities conducted in the normal course of business.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT RISK

In common with other financial institutions, the Group faces a range of risks in its business and operations including credit risk, liquidity risk, interest rate risk, market risk and operational risk.

Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation owed to the Group. Credit risk arises in the Group's normal course of business. Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of the Group's assets to any single counterparty. This risk is also managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 30 September 2020 was 15 per cent.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25 per cent. of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodic review of the credit performance and account rating.

For further information regarding the Group's credit risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Notes, the Loan and/or the Subordinated Guarantee—Credit risks*" and "*Risk Management—Principal Risks—Credit risk*".

Analysis of credit quality

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

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

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

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

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

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

The following table shows the Group's past due or impaired loans, advances and Islamic financings portfolio by category based on the Group's credit rating systems as at 31 December 2019.

	Corporate		Retail		Total	
	Past due and not impaired (KD thousands)	Past due and impaired	Past due and not impaired	Past due and impaired	Past due and not impaired	Past due and impaired
Up to 30 days.....	31,800	22,809	42,782	13	74,582	22,822
31-60 days.....	21,309	—	18,727	—	40,036	—
61-90 days.....	6,611	—	4,132	2	10,743	2
91-180 days.....	—	1,858	—	24,572	—	26,430
More than 180 days.....	—	60,056	—	77,593	—	137,649
	59,720	84,723	65,641	102,180	125,361	186,903

The Group's impaired loans, advances and Islamic financings as a percentage of total gross loans, advances and Islamic financings was 1.89 per cent. as at 30 September 2020 compared to 1.10 per cent. as at 31 December 2019, 1.38 per cent. as at 31 December 2018 and 1.42 per cent. as at 31 December 2017.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, Management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis. To reduce this risk, the Group has elected to use diversified funding sources and to manage assets with the objective of maximising liquidity.

For further information regarding the Group's liquidity risk, see "Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Notes, the Loan and/or the Subordinated Guarantee—Liquidity risks", "Risk Management—Principal Risks—Liquidity Risk" and "—Liquidity, Funding and Capital—Liquidity" above.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

For additional information on market risk, see "Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Notes, the Loan and/or the Subordinated Guarantee—Market Risk" and "Risk Management—Principal Risks—Market Risk".

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group believes that it is not excessively exposed to interest rate risk as its assets and liabilities are re-priced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. In the case of certain retail loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount. However the impact on these loans is limited, due to the varying maturity profile of such loans. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board and adjusted where necessary to reflect changing market conditions.

The following table summarises the effect of assumed changes in interest rates on the Group's net interest income for one year, based on the interest bearing financial assets and financial liabilities held at year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rates on the fair investments in debt securities classified as at fair value through other comprehensive income/available for sale. Sensitivity to interest rate movements is substantially symmetrical as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

	Movement in basis points	2019		2018		2017	
		Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
Currency							
KWD.....	+25	7,588	—	7,810	—	7,729	—
USD.....	+25	2,174	(3)	1,333	(17)	728	(69)
EUR.....	+25	573	—	1,165	—	1,930	—
GBP.....	+25	550	—	604	—	1,029	—
EGP.....	+25	23	(37)	67	(8)	328	—

For further information regarding the Group's interest rate risk, including its interest sensitivity position, see note 30 to each of the Annual Financial Statements and "*Risk Management—Principal Risks—Liquidity Risk*".

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board on currency position exposures. In general, assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

For further information regarding the Group's net exposures denominated in foreign currencies, see "*Risk Management—Principal Risks—Foreign exchange risk*" and note 30 to each of the Annual Financial Statements.

Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. For additional information on equity price risk, see "*Risk Management—Principal Risks—Market Risk—Equity price risk*".

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management. For additional information on operational risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of Notes, the Loan and/or the Subordinated Guarantee—Operational risks*" and "*Risk Management—Principal Risks—Operational Risk*".

DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of its business, the Group enters into a range of transactions that involve derivative financial instruments. The Group provides its customers and counterparties with structured transactions to reduce their risk profile in a particular area of risk. Hedging positions accumulated from such activities are typically offset through transactions with other market counterparties. The Group manages the risks involved in these activities through appropriate limits. These limits vary by product and maturity.

The Group also uses derivative instruments for hedging purposes as part of its asset and liability management in order to reduce its exposure to fluctuations in foreign exchange, interest rates and other risks. The Group uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Group also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments.

The fair values of the Group's derivative financial instruments as at 30 September 2020 are set out in note 11 to the Interim Financial Statements and their fair values as at 31 December 2019, 2018 and 2017 are set out in note 28 to each of the Annual Financial Statements.

CRITICAL ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS as adopted for use by Kuwait. For a discussion of the accounting policies applied by the Group generally, see note 2 to the 2019 Financial Statements.

In preparing the Group's financial statements, Management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from many estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see note 2.34 to the 2019 Financial Statements.

DESCRIPTION OF THE GROUP

OVERVIEW

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

As at 30 September 2020, and based on the Interim Financial Statements and the publicly available financial statements of the Group's main domestic competitors for the same period, the Group was the largest bank in Kuwait in terms of: (i) total assets; (ii) total loans (which, in the Group's case also includes advances and Islamic financing to customers); and (iii) total customer deposits. As at 30 September 2020, the Group's equity attributable to shareholders of the Bank was KD 3,171 million.

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

The Bank offers its clients a wide range of banking and financial services through the largest branch network in Kuwait, which, as at 30 September 2020, comprised 68 branches, a network of more than 325 automated teller machines and customer deposit machines (together referred to as "**ATMs**") and over 13,500 point-of-sale ("**POS**") terminals including near field communication ("**NFC**") enabled devices, tele-banking, internet banking and mobile banking. As at 30 September 2020, the Group served more than 3,000 corporate customers in its domestic Kuwait market.

The Group currently operates through six financial reporting segments:

- **Consumer and private banking:** the consumer banking segment provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange, credit facilities to SMEs and other branch-related services. The private banking department provides customised banking services to high net worth individuals. For the nine months ended 30 September 2020, KD 207 million, or 32.7 per cent., of the Group's net operating income was attributable to the consumer and private banking segment (year ended 31 December 2019: KD 292 million or 32.6 per cent.);
- **Corporate banking:** corporate banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposit-taking, trade finance, foreign exchange and advisory services. For the nine months ended 30 September 2020, KD 93 million, or 14.7 per cent., of the Group's net operating income was attributable to the corporate banking segment (year ended 31 December 2019: KD 157 million or 17.5 per cent.);
- **Investment banking and asset management:** the investment banking function provides capital market advisory services to its client base. The asset management department provides wealth management, portfolio and funds management, custody and brokerage services. This reporting segment represents the financial results of NBK Capital. For the nine months ended 30 September 2020, KD 21 million, or 3.2 per cent., of the Group's net operating income was attributable to the investment banking and asset management reporting segment (year ended 31 December 2019: KD 29 million or 3.2 per cent.);
- **Islamic banking:** the Group's Islamic banking reporting segment represents the financial results of Boubyan Bank, the Group's Islamic banking subsidiary. For the nine months ended 30 September 2020, KD 126 million, or 19.9 per cent., of the Group's net operating income was attributable to the Islamic banking reporting segment (year ended 31 December 2019: KD 151 million or 16.9 per cent.);
- **Group centre:** the group centre reporting segment includes treasury, investments and other defined Group activities. The treasury department provides treasury services to its clients and is also

responsible for the Group's liquidity. The group centre reporting segment also includes any residual in respect of transfer pricing and inter-segment allocations. For the nine months ended 30 September 2020, KD 30 million, or 4.7 per cent., of the Group's net operating income was attributable to the Group centre reporting segment (year ended 31 December 2019: KD 46 million or 5.2 per cent.); and

- **International:** the international reporting segment comprises the activities of all branches, subsidiaries and associates of the Group outside Kuwait. For the nine months ended 30 September 2020, KD 157 million, or 24.8 per cent., of the Group's net operating income was attributable to the international segment (year ended 31 December 2019: KD 221 million or 24.6 per cent.).

For further details on the Group's reporting segments, see "*—Reporting Segments*" below.

The Bank is a public shareholding company which was incorporated in the State of Kuwait by an Amiri decree on 19 May 1952 (Amiri Decree dated 19 May 1952 permitting the foundation of National Bank of Kuwait) and commenced operations on 15 November 1952. The Bank is registered with the Kuwaiti Ministry of Commerce, with commercial registration number 8490, is licensed to conduct banking activities and is regulated by the CBK. The Bank's registered office is Sharq Area, Jaber Al-Mubarak and Al Shuhada Street, Block 7, Plot 6, P.O. Box 95, Safat 13001, State of Kuwait and its telephone number is +965 2242 2011.

Impact of COVID-19

The Group's business was impacted by COVID-19 in most of its locations leading to a more challenging operating environment across its network. The implementation of restrictive measures to control the spread of COVID-19 including curfews and border closures led to slower economic activity during the second quarter of 2020. The resultant economic slowdown had a significant impact on the Group's operations. The decrease in transaction volumes resulted in lower fees and commissions income, whereas the low interest rates resulted in more pressure on interest margins. Additionally, the impact of non-oil GDP contraction, the lower oil prices and lock-down period, had all increased the level of uncertainty for the outlook of the operating environment.

Financial results in the first half of 2020 were negatively impacted by the Group's implementation of the consumer and other instalment loans deferral scheme in the second quarter of 2020 in Kuwait. The KD 130 million loss attributable to the Bank's equity shareholders was charged to retained earnings and the remaining loss to non-controlling interests. Based on the directions of the CBK, the impact of the loss on the Group's Regulatory Capital may be deferred for the year ended 31 December 2020, then subsequently amortised equally over four years starting in 2021.

The Group took proactive measures and activated emergency plans in the early stages of the COVID-19 pandemic in order to protect employees and ensure a safe environment for business continuity. The Group began leveraging the flexibility of its business model by providing support and advice to customers facing financial difficulties through reliance on the Group's digital capabilities. This enabled the Group to maintain the level of service quality and accessibility that customers normally expect.

Group-wide initiatives to reduce the impact of the pandemic on profitability consist of the following:

- Ensuring sustainability of revenues and controlling costs by doubling the Group's efforts in the digitalization field through fast tracking of the digital value propositions and increasing Robotic Process Automation initiatives to automate more processes and achieve cost savings;
- Exploring opportunities to substantially grow the Group's wealth management business to diversify income geographically and to increase the share of fee-based and capital-light contribution; and
- Mitigating risks in the existing credit portfolio, where all significant exposures are being closely monitored and reviewed to assess impact of COVID-19 on the Group's corporate borrowers.

For more information please see "*Significant factors affecting results of operations - Impact of COVID-19 Pandemic*" and Risk Factors "*The outbreak of communicable diseases around the world, in particular the COVID-19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*".

STRENGTHS

The Group benefits from a number of business strengths. In particular:

Largest banking group in Kuwait with a dominant market position

As at 30 September 2020, the Group had total assets of KD 30,383 million, total loans, advances and Islamic financing to customers of KD 17,634 million and total customer deposits of KD 17,499 million, making it the largest banking group in Kuwait on all three metrics. The Group is also one of the leading banks in Kuwait with a broad portfolio of consumer and corporate products, an extensive distribution network and well-established relationships with its client base. With more than 3,000 corporate customers as of 30 September 2020, the Group has one of the largest customer bases in Kuwait and the Group believes that, as at 30 June 2020, it had 36 per cent. market share in Kuwait's consolidated banking assets. The Group also maintains one of the largest domestic distribution networks. This distribution network offers significant opportunities to attract additional clients and expand the Group's range of products and services to existing clients. As at 30 September 2020, the Bank had the largest branch network in Kuwait, comprising 68 branches, a network of more than 325 ATMs and over 13,500 POS terminals, in addition to tele-banking, internet banking and mobile banking platforms.

The Group's strong position in consumer and corporate banking enables the Group to benefit from economies of scale and provides a strong platform for sustained profitability in the Kuwaiti banking market. The Group's market position and strong brand recognition throughout Kuwait and the MENA region reflect the Group's focus on high-quality customer service and the creation of innovative products and services, its established track record in both consumer and corporate banking, its targeted marketing to consumers, SME, large corporate and strategic client groups and its involvement in Kuwait's most prominent infrastructure and other development projects.

Only banking group in Kuwait to provide both conventional and Islamic banking

Following its acquisition of Boubyan Bank in 2012, the Group is the only banking group in Kuwait to offer both conventional and Islamic banking services, therefore diversifying income sources as well as offering the Group the opportunity to grow its balance sheet and strengthen its position in its core domestic market. Accordingly, the Group generates net income from Islamic financing in addition to net interest income. In the nine months ended 30 September 2020, the Group generated net income from Islamic financing of KD 104.5 million compared to KD 91.1 million in the corresponding period of 2019.

In 2011 pursuant to a court decision, an exception to the general prohibition on Kuwaiti banks registering mortgages on private residences in Kuwait was created in respect of Islamic banks only, allowing them to finance purchases of residential properties using a mortgage over the property as security. Accordingly, the principal competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Additionally, regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios.

As discussed under "*Strategy—Geographic and product and service diversification—Strengthening its Islamic banking franchise*", Boubyan Bank focuses on high net worth and affluent clients and large and mid-market corporate customers, thereby building on many of the Group's core strengths.

As at 30 September 2020, Boubyan Bank had made available KD 4,648 million of Islamic financing to customers and had accepted KD 5,066 million in customer deposits across its 43 branches.

A strong regional and international network

Within the MENA region, the Group's subsidiary, National Bank of Kuwait – Egypt S.A.E., operates 53 branches in Egypt while the Group's subsidiaries in Iraq (Credit Bank of Iraq S.A.) and Lebanon (National Bank of Kuwait (Lebanon) S.A.L.) operate networks of five and three branches, respectively. The Bank itself has two branches in Bahrain, one in Jordan, three in Saudi Arabia and two in the United Arab Emirates and an associate, Turkish Bank A.S., which has 10 branches in Turkey. In addition, Boubyan Bank has an investment of 21.7 per cent. in United Capital Bank, Sudan.

Internationally, the Group has subsidiaries in London (National Bank of Kuwait (International) plc), Paris (National Bank of Kuwait France S.A.), Geneva (NBK Banque Privée (Suisse) S.A.) and branches in New York, Singapore and Shanghai. In January 2020, Boubyan Bank consolidated the Bank of London and the Middle East ("**BLME**"), after increasing its shareholdings in BLME to 71.1 per cent.

This geographical footprint provides opportunities for the Group to grow its product and service offering, in addition to developing its existing client base and leveraging the Group's well-established domestic operations.

Strong asset management and investment banking capability

The Group conducts its investment banking and asset management business through its subsidiary, NBK Capital. In addition, brokerage services are conducted through the Group's brokerage subsidiary, Watani Financial Brokerage Co. K.S.C., and asset management activities are undertaken in Saudi Arabia through Watani Wealth Management Company, a subsidiary incorporated in 2018. The Group believes that each business unit within NBK Capital has unique strengths that are specific to that segment. The asset management team benefits from the Group's strong distribution network and its own strong track record. The brokerage team provides professional execution to its clients. The team's strong fundraising capabilities differentiate it from other similar teams in Kuwait. In addition, the investment banking team benefits from its execution and sector expertise and the ability to offer its services to the Group's large client base.

Stable shareholder base and strong, experienced Board and executive management team

The Bank was established in 1952 by a group of leading Kuwaiti merchants and it has retained the same core shareholder base since that time. The Group believes it has a strong and stable board of directors and a long-serving executive team with a strong track record in Kuwait.

The Group's strategy (see "*—Strategy*") is supported by the executive management team's broad expertise in the region, proven record for implementing industry leading initiatives, and by its focus on best practices and customer service. The Group benefits from continuity of personnel within its executive management team, with limited changes to the executive management team over the previous 10 years. The Group's board of directors and executive management team have extensive experience in the financial services sector in Kuwait, the MENA region and internationally. Further details of the Group's board of directors and executive management are set out under "*Management*".

Strong capital base and liquidity

Since the introduction of the BASEL III regime, the regulatory minimum requirement applicable for the Group for total capital adequacy ratio, Tier 1 capital adequacy ratio and CET1 capital adequacy ratio was 15.0 per cent., 13.0 per cent., and 11.5 per cent., respectively, inclusive of a "Domestic Systemic Important Bank" surcharge of 2.0 per cent. In light of consequences from the COVID-19 pandemic, the CBK has lowered these minimum requirements to 12.5 per cent., 10.5 per cent. and 9.0 per cent., respectively, from and including 30 June 2020, to 31 December 2020. The Group's financial leverage ratio was 9.6 per cent. as at 30 September 2020 compared to the required minimum level of 3 per cent.

With effect from the quarterly reporting period ending 30 September 2019, the CBK amended certain sections of its Basel III capital regulations relating to claims on sovereign and public-sector entities outside Kuwait which has impacted the Group's capital ratio. In light of such regulatory amendments, the Group is making adjustments to, and refining its capital, business portfolios and plans. During 2020, the CBK announced a six-month payment postponement for all consumer loans, which resulted in a loss of KWD 130 million for the Bank's equity shareholders. Based on further directions from the CBK, this amount which was charged to retained earnings in June 2020 is to be deferred and deducted from regulatory capital equally over four years starting 2021.

As at 30 September 2020, the Group had a total capital adequacy ratio of 17.0 per cent., a Tier 1 capital adequacy ratio of 15.1 per cent. and a CET1 capital adequacy ratio of 12.8 per cent. calculated in accordance with Basel III methodology as adopted by the CBK. As at 30 September 2020, the Group had cash and short term funds of KD 4,405 million.

As part of the Basel III reforms, the Group maintains an adequate amount of HQLAs to cover its net cash outflow, which enables it to survive a significant stress scenario lasting for a period of up to 30 days. The

Group monitors and reports its LCR and NSFR at three organisational levels: (i) at the local level including the Bank but excluding its non-Kuwaiti operations; (ii) at the Bank level, including the Bank's non-Kuwaiti operations; and (iii) at the Group level, including all fully consolidated subsidiaries of the Group. Throughout the period of monitoring, the Group was consistently over and above the regulatory minimum requirement of LCR and NSFR. Due to the COVID-19 pandemic, the CBK lowered the minimum requirements of LCR and NSFR from 100 per cent. to 80 per cent. for the period of 2 April 2020 to 31 December 2020.

The Group has maintained a strong liquidity position with an LCR of between 139 per cent. and 183 per cent., since 1 January 2017. The Group believes its adherence to the LCR criteria will ensure it is well-equipped to absorb any unanticipated systemic shocks to the Kuwaiti or MENA economies or banking sectors. The Group has also maintained an NSFR ratio in the range of 108 per cent. to 117 per cent. indicating strong funding stability. See "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Liquidity risks—The Group's cash flow from its operations may not be sufficient at all times to meet its contractual and contingent payment obligations*". As at 30 September 2020, the Group held a portfolio of HQLAs valued at KD 6,797 million and had an LCR ratio of 152.2 per cent., while the NSFR ratio was 114.4 per cent.

Sound and consistent financial performance

The Group has a long history of profitability and remained profitable throughout the global financial crisis. Between 2017 and 2019, the Group's operating surplus (being its operating profit before provisions for credit losses and impairment losses) grew by 6.1 per cent., its total assets grew by 12.4 per cent. and its net profit attributable to shareholders of the Bank grew by 24.5 per cent. In addition, the Group benefits from low-cost funding due to its strong liquidity position and believes its asset quality is strong, as evidenced by its relatively low levels of non-performing loans.

As at 30 September 2020, the Group's impaired loans ratio (defined as impaired loans as a percentage of total gross loans) was 1.89 per cent. As at 31 December 2019, the Group had KD 187 million of impaired loans and carried loan loss reserves of KD 509 million to cover potential loan losses. As at 30 September 2020, the Group had KD 346 million of impaired loans and the Group's impairment allowances covered 191 per cent. of its impaired loans.

High credit ratings and among the top brand values regionally

The Group has some of the highest credit ratings in the MENA region and internationally, with ratings of "A1" from Moody's with a stable outlook, "A" from Standard and Poor's and "AA-" from Fitch, both with a stable outlook. The Group has consistently been ranked in the 50 safest banks in the world list by Global Finance and, in 2019, was named as the most valuable banking brand in Kuwait by Brand Finance, with a brand value of U.S.\$1.63 billion.

STRATEGY

The Group's overall strategic goal focuses on defending and growing its leadership position in Kuwait, whilst also diversifying its business geographically (particularly in the GCC) and by products offered.

Building a digital future

The Group has made significant progress in improving its digital capabilities. Through defining and launching a five-year roadmap designed to achieve a leadership position in innovation in the region, the Group has demonstrated its commitment to a digital future and a desire to keep ahead of the curve as market practice shifts.

Digitalisation efforts are taking place across markets. In Kuwait, the Bank has launched a digital transformation that includes enhancing customer touchpoints, improving internal processes and building digital capabilities. The Bank has already migrated a large number of transactions and services to digital platforms.

The launch of a state-of-the-art Data Centre in Kuwait was a critical milestone in 2019. The Group is adopting an agile development framework to promote efficiency and improve time-to-market for innovative new ideas.

Across units and markets, the Group seeks to develop and embed a digital culture throughout the organisation. In this respect, the Bank has placed a strong emphasis on attracting and retaining highly qualified talent, nurturing the human capital that is critical to deliver the Group's long-term ambitions.

While the cornerstones of the Group's strategy remain unchanged, the Bank developed a 2-pronged approach overlaying its digital roadmap to execute the Group's strategy. The Group aims to transform its business and deliver the best customer experience with the "Digital Transformation of the Core". Actions will be executed across 3 streams: customer-facing initiatives, internal initiatives to transform processes and digital culture and execution capacity. Moreover, the "Business Diversification Leveraging Digital Disruption" encompasses all of the Group's efforts outside the core. The business diversification priorities includes building digital disruptive businesses, scaling up Islamic Banking via Boubyan Bank, building a regional powerhouse in wealth management and transforming the retail business in Egypt.

Defend and grow leadership position in Kuwait

The Group's overall strategy in its core domestic market is to maintain excellence and its market leadership position in the provision of banking services, to leverage its strong financial position to expand its existing market shares in loans, customer deposits and project and trade financing and to maintain discipline in managing both risk and costs. Within its core domestic product groups of corporate, consumer and private banking, the Group intends to implement this strategy as follows:

Corporate banking

Within the corporate banking sector in Kuwait, the Group's aims include:

- remaining the primary banker for a majority of the leading local companies whilst also continuing to be an active participant in the mid-market sector;
- remaining the bank of choice for foreign companies actively operating in Kuwait and continuing to serve around 75 per cent. of those companies; and
- maintaining its current market share in trade finance which the Bank believes is in excess of 30 per cent.

The Group intends to achieve these aims by offering differentiated services to its corporate clients, leveraging the different services provided throughout the Group, expanding its coverage model and broadening the range of products and services offered. The Group's strategy centres around being at the forefront of large-scale Kuwaiti government projects, as it believes its large capital base, high credit ratings and international presence provide it with an advantage over other Kuwaiti banks when competing for these projects or when seeking to raise funds for the purposes of financing these projects. The Group's growth strategy also includes strengthening its leadership position among large Kuwaiti corporates and increasing its penetration among middle-market companies through targeted marketing and building new relationships. The Group focuses on strengthening customer relationships at all levels of the corporate banking business and is in the process of enhancing its corporate online service and establishing a cash management proposition that the Group believes will be competitive with the cash management services currently offered by international banks. Within corporate banking, the Group places emphasis on investing in retaining and recruiting new talent and developing its operational platform.

Notwithstanding this growth strategy, the Group also intends to maintain asset quality with a particular emphasis on credit control, risk management and ensuring an effective corporate governance framework.

Consumer banking

Within the consumer banking sector in Kuwait, the Group's aims include:

- maintaining its leadership position as evidenced by the highest loan and credit card penetration among conventional banks in Kuwait and the highest proportion of Kuwaiti customers among all Kuwaiti banks, based on the Group's internal data and monthly CBK reports for the Kuwaiti banking system;

- maintaining its focus on the delivery of a superior customer service experience, evidenced by the overall customer satisfaction index remaining above 90 per cent., according to the Bank's annual Kuwaiti customer satisfaction survey conducted in 2019; and
- maintaining the lowest cost of funds among Kuwaiti conventional banks.

The Group intends to expand its consumer banking customer base by focusing on select consumer segments such as the affluent and mass affluent segments, in addition to younger clients and the expatriate segment, and by attracting new clients such as SMEs.

In an effort to increase the appeal of the Group to young Kuwaitis and other digitally sophisticated clients, in 2019 the Group started a three-year digital transformation programme, initially focusing on consumer banking with investments made in diversifying its banking services delivered through mobile devices, generating awareness and encouraging mobile channel penetration among clients.

The Group has enhanced its call centre and service campaign management capabilities with a focus on improving cross-selling and product penetration by using the latest available tools and technologies. As new technologies are being deployed, the Group intends to increase its focus on digital marketing.

The Group also intends to capitalise on its brand equity by cascading the Bank's corporate brand down to the consumer banking level and developing a consistent level and form of communication across the Bank's consumer banking product and service campaigns.

Private banking

Within the private banking sector in Kuwait, the Group's aims include:

- continuing to provide a unique and compelling proposition to its high net worth clients in collaboration with NBK Capital and the Group's international network;
- leveraging the wealth management expertise of its private bank subsidiary, NBK Banque Privée (Suisse) S.A., in Geneva through which its customers gain access to leading international funds and otherwise broadening its product portfolio to accommodate the growing needs of its clients;
- providing a high quality service through its team of more than 30 experienced private bankers; and
- leveraging its strong brand to acquire new clients and retain current clients.

Geographic and product and service diversification

The Group's geographic and product and service diversification strategy involves expanding its regional presence, strengthening its Islamic banking franchise and building leading asset management and investment banking capabilities in the region.

Expanding regional presence

The Group's geographic diversification strategy is to leverage its fundamental strengths and capabilities, including its international reach and strong relationships within the MENA region, to build a regional platform and support growth in key markets, such as certain GCC countries and Egypt. In particular, the Group is focusing on markets which it has identified as having long-term potential through a combination of high-growth economies, positive demographic trends and the ability for the Group to exploit one or more competitive advantages, such as existing or new synergies and the ability to cross-sell other Group products and services.

When expanding its regional presence, the Group intends to:

- leverage its strong reputation and brand name by ensuring standardisation and consistency across all of its markets;
- adopt a flexible business model so that it can easily adapt to changing trends and conditions in its different markets;

- deliver high standards of consistent, reliable and responsive service in all of its markets; and
- maintain rigorous risk management discipline and governance, as well as a unified compliance process, in all markets.

As part of its regional expansion and diversification agenda, the Group believes that a digital platform has the potential to unlock the possibility of building a meaningful retail customer franchise in markets where the Group maintains only a limited branch presence. To this end, the Group has recently established a digital platform that aims to enable its expansion strategies in select MENA markets while supporting its digital transformation in Kuwait.

Strengthening its Islamic banking franchise

Having first acquired a minority shareholding in Boubyan Bank in 2009, in 2012 the Group increased its shareholding to 58.4 per cent. and Boubyan Bank has been fully consolidated as a subsidiary for accounting purposes since 31 July 2012. The Group's current stake in Boubyan Bank is 59.9 per cent. Boubyan Bank had an estimated market share of total banking sector assets and customer deposits in Kuwait of 6.5 per cent. and 8.9 per cent., respectively, as at 31 December 2019 (according to the audited consolidated financial statements of Boubyan Bank as at and for the financial year ended 31 December 2019).¹

The Group's strategy in relation to Boubyan Bank is to differentiate it from other Islamic banks in Kuwait through a clear focus on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths.

Building a regional leader in asset management and investment banking

The Group's strategy in relation to its investment banking and asset management business is to establish the business as a leading regional investment bank, asset management and brokerage operation servicing both existing Group clients and acquiring new clients. NBK Capital intends to focus on increasing its assets under management by broadening its suite of products to offer fixed-income and equity products across the MENA region, in addition to structured leasing and real estate products on an international basis, to meet market demand and investing in technology and human resources to complement its existing product base. In addition, the Group plans to expand NBK Capital's client base with a focus on cross-selling to the Group's private banking and high net-worth consumer banking clients and a targeted investment in establishing a dedicated business development team for NBK Capital.

A recent successful example of the cooperation between NBK Capital and the Private Banking Group is the launch of Al Watani Wealth Management in Saudi Arabia, which represents an integrated wealth management model which the Group intends to grow across multiple geographies, adapting to local regulatory requirements, with a view to expanding its regional origination capabilities complemented with international asset allocation.

HISTORY

The Bank was the first private indigenous bank in Kuwait and the Gulf region. The Bank focused on the Kuwaiti market following its establishment and has survived several crises, including the 1982 Souk Al Manakh (Kuwait's informal stock market) crash and the Iraqi invasion in 1990. The Bank also played a vital role in rebuilding the Kuwaiti economy following the liberation of Kuwait in 1991.

The Group started its expansion outside Kuwait in the 1980s by opening full service branches in key international (New York, London, Paris, Geneva and Singapore) and regional (Bahrain and Lebanon) centres to capture investment and trade flows with Kuwait and to service Kuwaiti customers and provide convenient and secure locations for their deposits. In 2004, the Group made the strategic decision to expand its presence in the MENA region in markets which it viewed as offering high growth potential. The Group accordingly made a series of acquisitions in Iraq and Egypt, acquired significant minority stakes in banks in Qatar and in Turkey and established itself organically in Jordan, Saudi Arabia (Jeddah) and the United Arab Emirates. In 2017, the Group also completed the conversion of its representative office in Shanghai to a fully-fledged branch and its branch in Paris to a subsidiary in 2018.

¹ These market shares are based on the audited consolidated financial statements of all banks in Kuwait, which include international assets and deposits.

Following political instability in several countries in the MENA region, the Group's strategy focused on growing its operations in GCC countries which were more politically stable and had strong economic fundamentals. As part of this strategy, the Group opened its Abu Dhabi branch in 2013.

In 2009, the Group acquired a relatively small stake in Boubyan Bank. Following several additions to its shareholding, the Group's ownership exceeded 50.0 per cent., and Boubyan Bank became a fully consolidated subsidiary of the Group in 2012. Boubyan Bank, a bank offering exclusively Islamic products and services, offers the Group a significant opportunity to grow its balance sheet, diversify its income sources and strengthen its market position in the Kuwaiti market as the Group is the only financial institution in Kuwait to offer both conventional and Islamic banking.

On 27 January 2020, Boubyan Bank K.S.C.P, acquired an additional equity interest in BLME, resulting in an increase in its effective ownership from 27.9% to 71.1%. Having obtained control, the Group reclassified its investment in BLME from associate to subsidiary and has consolidated the financial results of BLME. As at the date of acquisition, BLME contributed KD 523 million and KD 616 million to the Group's Islamic financings and total assets, respectively, and KD 365 million to the Group's customer deposits.

CAPITAL STRUCTURE AND SHAREHOLDERS

The Bank has been listed on the Boursa Kuwait since 29 September 1984. As at 30 September 2020, the Group had only one shareholder which had direct and indirect holdings in excess of 5 per cent. of its issued share capital (being The Public Institution for Social Security, which had a 5.60 per cent. holding in the Group as at 30 September 2020).

The Bank's total market capitalisation as at 30 September 2020 was KD 5.9 billion. As at 30 September 2020, the Bank's authorised share capital comprised 7,500,000,000 shares of KD 0.1 each, giving it an authorised share capital of KD 750 million.

The issued and fully paid up share capital of the Bank as at 30 September 2020 comprised 6,850,185,181 shares of KD 0.1 each, giving it an issued and fully paid up share capital of KD 685.0 million.

The Group believes it benefits from a strong shareholder base, with the Bank's original founding families still controlling the majority of its share capital.

SUBSIDIARIES

As at 30 September 2020, the Group's subsidiaries are:

Name	Country of Incorporation	Primary Business	Holding (%)
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	59.9
National Bank of Kuwait-Egypt S.A.E.	Egypt	Banking	98.5
Watani Investment Company K.S.C.(Closed.)	Kuwait	Investment Company	99.9
National Bank of Kuwait (International) plc	United Kingdom	Banking	100.0
National Bank of Kuwait France SA	France	Banking	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0
National Bank of Kuwait (Lebanon) S.A.L. ⁽¹⁾	Lebanon	Banking	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	91.0
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	100.0
Watani Financial Brokerage Company K.S.C.C.	Kuwait	Brokerage	93.3
BLME Holdings plc ⁽²⁾	United Kingdom	Islamic Banking	71.1

⁽¹⁾ As at 30 September 2020, 38.1 per cent. of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

⁽²⁾ Stake owned by Boubyan Bank K.S.C.P.

REPORTING SEGMENTS

Consumer and private banking reporting segment

Consumer banking

The Group offers a wide range of consumer banking products and related services in Kuwait through its integrated distribution network, comprising branches, mobile banking, online banking, ATMs, POS terminals and other remote banking platforms. In addition, the Group has a direct sales force which markets its consumer products and services to its customers. The Group's consumer banking products include a range of consumer loans, deposits, cards, business banking for SMEs and wealth management services.

The Group intends to focus on customer service in its consumer banking business as a key differentiator. The Group annually measures and monitors its overall customer satisfaction as well as customer satisfaction with specific products and services offered. The Group has implemented proactive customer retention and loyalty programmes and has increased its operational efficiency through enhancing its technology platform and repositioning its alternative delivery channels as attractive, user-friendly and reliable alternatives to branch banking (see "*Distribution channels*" below).

In addition, the Group intends to increase its customer base by focusing on select segments, including the younger generation and mass affluent, as well as SMEs with a sales turnover of up to KD 2 million. At the same time, the Group aims to leverage its credit and risk infrastructure to manage the credit portfolio.

Private banking

The Group has offered wealth management services to its private banking clients since 1982. These services are customised to fit each client's risk tolerance and financial needs which are assessed by relationship managers on a quarterly basis. The Group's private banking services include fixed-income and money-market products, wealth and asset management products, including equities and funds, and offshore services designed to preserve customers' capital without restricting capital growth. Beyond Kuwait, an extensive range of international banking products and services are offered through the Group's international branches and subsidiaries, including NBK Banque Privée (Suisse) S.A. and Al Watani Wealth Management in Saudi Arabia.

The Group aims to establish strong relationships with its personal banking clients based on professional expertise, integrity, confidentiality and trustworthiness. Within the private banking business, the Group intends to continue to grow at a consistent pace by focusing on key objectives including:

- new client acquisition, with continued emphasis being placed on attracting younger clients through the introduction of digital platforms;
- increasing its "share of wallet" of existing clients and maintaining strong and durable relationships with clients supported by quality service coupled with innovation in products and solutions to meet the changing needs of the Group's clients; and
- building a global private banking offering by leveraging its presence in, amongst other jurisdictions, the UAE, Saudi Arabia, the United Kingdom, Lebanon and Egypt.

Distribution channels

The Group's principal distribution channels in Kuwait comprise:

- *Branch network:* As at 31 December 2019, the Bank had the largest branch network in Kuwait, with 68 branches across the country, and the largest ATM network, with more than 325 ATMs including more than 100 customer deposit machines, seven special needs ATMs, two mobile ATMs and more than 13,500 POS terminals. The Group operates a 24/7 self-service facility at its major branches and other select locations where customers can conduct a range of banking services,

such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books and internet and telebanking access. The Group also has two 24/7 branches located at the Kuwait International Airport Terminal 1 and Terminal 4 and introduced instant issuance of new debit cards to customers at all of its branches.

- *Telebanking:* The Group introduced automated banking by telephone to its customers and opened its call centre in 1994. This call centre, which has been operated on a 24/7 basis since 2003, can be used by customers in Kuwait to conduct a variety of transactions, including reporting lost or stolen cards, performing account transfers and bill payments and making enquiries and complaints. It also operates as a telemarketing tool through which the Group sells products to customers directly or refers them to their channel of choice. In 2019, the Group's call centre handled approximately 2.5 million calls.
- *Online banking:* The Group commenced offering online banking to its consumer banking customers in 1998 and, as at 31 December 2019, had approximately 550,000 registered online banking customers with around 4.2 million transactions executed in 2018 and around 3.6 million executed in 2019. The services provided to account holders through the online banking platform include account balances, history and transaction detail enquiries, funds transfers, bill payments, online trading, foreign exchange and interest rate enquiries, online credit card applications, cheque book ordering and statement requests.
- *Mobile banking:* Since 2011, the Group's customers have been able to use banking services delivered through mobile devices that provide regular account updates and SMS alerts to registered smart mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers, and statement and cheque book requests. Mobile application enhancements included the introduction of a digital signature facility for loan applications, credit card applications and credit limit increase requests. Mobile application users now benefit from an improved login profile, the ability to book term deposits and open partial fixed deposits, the ability to activate dormant accounts, the option to set-up and amend standing orders and to make transfers to the Group's Smart Wealth brokerage platform. The Group's "Mobile Only" strategy, which is designed to provide its consumer banking customers with the maximum possible flexibility for conducting banking transactions through mobile applications, is a core aspect of the Group's mobile based distribution channel. The Group had approximately 276,000 registered mobile banking subscribers as at 31 December 2019 with approximately 14 million transactions executed in 2019.
- *Direct sales force:* The Group has the largest direct sales force in Kuwait including sales staff at car dealerships and sales staff located at key government ministries and strategic corporate clients. It has recently expanded its direct sales force to focus on attracting persons entering employment by increasing its presence in key hiring locations in Kuwait.
- *Bespoke private banking services at select branches:* The Group offers comprehensive financial solutions and customised private banking services at the Bank's head office branch and seven other branches in Kuwait. The Group continues to leverage its international network to offer private banking services to clients in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris. In addition, in 2018 the Group established a locally-licensed wealth management subsidiary, Al Watani Wealth Management, in Saudi Arabia. The Group seeks to maintain a high level of service quality through extensive and diverse training programmes and careful recruitment of its private banking employees. The Group aims to establish long-term relationships with its private banking clients.
- *Contactless payment technology:* The Group was the first bank in Kuwait to introduce contactless payment options for its customers, with the 'Tap and Pay' card. The 'Tap and Pay' system uses NFC technology and allows customers to make payments of up to KD 25 at over 11,500 NFC point-of-sale terminals throughout Kuwait, by placing their 'Tap and Pay' card on a point-of-sale machine without the need to enter a PIN number. The Group is the largest acquirer of NFC compatible contactless point-of-sale terminals in Kuwait, based on the Group's internal data and on CBK data for total point-of-sale market sizing.

Furthermore, the Bank was the first local bank to launch Fitbit Pay which enables customers to make contactless payments via select Fitbit devices. The Bank's customers can now conveniently

use the free Fitbit app (Android and iOS) to add up to six cards to their Fitbit Wallet. Similarly, the Bank was also the first bank to launch Garmin Pay in Kuwait which enables its customers to make payments through their wearable Garmin Pay-compatible watch.

Products and services

The Group offers its consumer banking customers a wide range of banking services, including:

- **Deposits:** The Group has a complete range of deposit products, including a broad selection of accounts for customers' everyday banking needs, such as current, trust, express and call accounts. The Group also offers a selection of interest-bearing deposits, such as savings accounts, super accounts and notice accounts. For customers who would like to have higher interest on their savings, the Group offers term deposits, flexible term deposits for receiving regular interest, and partial withdrawal term deposits where customers may withdraw up to 10 per cent. of the deposit annually. In addition, the Group offers a draw account, named Al-Jawhara, which is non-interest bearing and features weekly, monthly and quarterly draws to allow customers to win cash prizes between KD 5,000 and KD 250,000 with a total of KD 2.2 million annually. The Group is also developing long-term fixed savings deposits in order to enhance the maturity profile of its deposit base. For an analysis of the Group's customer deposits, see "*Financial Review—Financial Position*".
- **Loans and credit cards:** The Group's loan products include consumer and housing (also known as "**family**") loans with repayment terms extending up to five years and 15 years, respectively. The Group also provides one of the widest ranges of Visa and MasterCard credit and debit cards in Kuwait and is currently the only bank in Kuwait offering Diners Club International cards. The Group's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. Applications for loans and credit cards can be made through the Group's branch network, direct sales, telebanking or online channels. Consistent with its credit risk management strategy, the Group prioritises attracting loan and credit card customers with good credit standing. Loan and credit card applicants are screened and credit limits are assessed according to the Group's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations. In addition, a loans and cards origination system with automated credit decisioning has been implemented through redesign of end-to-end processes to enhance turnaround time.

The Group uses local and international merchant relationships, promotions, a credit card reward programme and other incentives in order to increase card usage and expenditure levels and to increase customer loyalty and retention. The Bank was the first bank in Kuwait to launch an automatic reward redemption programme based on card usage through POS terminals without the need of vouchers. Its rewards programme is the largest merchant-based rewards programme in Kuwait and enables cardholders to earn and redeem rewards at over 850 outlets in Kuwait which cater to a variety of lifestyle needs as at 30 September 2020. The NBK Miles World Mastercard Credit Loyalty Program allows the customer to earn miles points and redeem them on flights across over 800 airlines, book accommodation at more than 150,000 hotels globally and to access more than 500 airport lounges in over 300 airports. The launch of NBK-Kuwait Airways (Oasis Club) Visa cards in partnership with Kuwait Airways grants customers an array of advantages including miles collection and redemption, access to airport lounges worldwide, travel insurance and earnings through the NBK Rewards program points.

- **Business banking:** With a view to diversifying its consumer banking revenue, in 2013 the Group launched a business banking proposition focusing on servicing SMEs in Kuwait with an annual sales turnover of up to KD 2 million through its expanded network of dedicated branches. The Group has three business banking hubs with eight branches established at strategic locations in Kuwait. The Group focuses on acquiring SMEs with a high "cross sell" product ratio, especially in the medical, food and beverage and manufacturing sectors. Each SME has an assigned relationship manager who provides a range of tailor-made products and services that assist in the SME's day to day operations, financing and expansion plans. A range of payment, account and foreign exchange services, working capital, term finance and trade finance services tailored to meet the customer's needs are available to the Group's SME customers subject to credit approval.

The Bank has also been working with The Kuwait National Fund (KNF) for small and medium enterprise development since 2017. The team within the Bank dedicated to KNF is responsible for reviewing and analysing the feasibility studies provided by KNF. It is also responsible for providing KNF with recommendations on acceptance or rejection of cases.

- *Other services:* The Group's principal deposit and lending products are complemented by a range of more general consumer banking services, including bill payments, remittances, foreign exchange, safe deposit boxes and share custody, electronic funds transfer and online trading. In addition, the Group's consumer banking customers have access to a suite of investment products which are managed by the treasury function within its Group centre reporting segment. See "*Group centre reporting segment—Investments*" below.

Corporate banking reporting segment

The Group offers its corporate clients a range of commercial banking products and services, including loans, overdrafts, trade finance (letters of credit and guarantees), online services, and a range of current and deposit accounts. Additionally, the corporate banking group works with other business units within the Group, such as Group centre and NBK Capital, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Group offers a corporate internet banking tool, known as Watani Online Corporate Banking. As at 31 December 2019, the Group had approximately 3,600 active corporate online banking accounts.

The Group's corporate banking reporting segment includes:

The domestic corporate banking group

This banking group caters to major Kuwaiti companies and is organised around units with specific industry expertise, principally:

- general trade and commerce, including the cars, electronics, consumer durables, food and clothing sectors;
- real estate development and contractors, including building materials;
- insurance;
- manufacturing, including in the food and drink, ship building, steel and metal fabrication, cement and clothing sectors; and
- services, including telecommunications, education, transport and logistics, healthcare and retail services.

The Group also has a unit dedicated to Kuwaiti companies with a multinational presence as well as a unit focused on the small and middle market segment. The Group has recently increased its focus on the mid-market sector with a dedicated sales team which attracted more than 100 new mid-market corporate customers within 24 months.

The foreign corporate banking group

The foreign corporate banking group has two major business units: Foreign Contracting and Oil & Petrochemicals. Most of the business of these two units is driven by public-sector spending in the form of major infrastructure and oil and gas projects. Given its historic relationship with the Kuwait Petroleum Corporation ("**KPC**") group, the Group believes it is well placed to advise on, and provide financing to, high-value projects tendered by the KPC group, as well as major overseas investments made through KPC's operating entities, Kuwait Petroleum International Ltd and Kuwait Foreign Petroleum Exploration Company.

The trade finance division

This division uses its extensive knowledge of international trade to help corporate clients enhance their global competitiveness and reduce risk. The Trade Finance Division offers the Group's customers a wide range of services, including:

- letters of credit, including both inward and outward back-to-back, transferable, deferred payment, standby and revolving letters of credit;
- letters of guarantee, including bid bonds, performance, advance payment, retention, suppliers credit and contract guarantees;
- collections settled; and
- financing under letters of credit.

In addition to a dedicated trade finance team, the Bank offers a trade finance portal to its customers. The portal enables customers to open both letters of credit and letters of guarantee online.

The Group's corporate banking division was named "*Best Trade Finance Service Provider in Kuwait for 2019*" by Global Finance.

Investment banking and asset management reporting segment

The Group's investment banking and asset management reporting segment comprises the activities of NBK Capital. NBK Capital has over 150 professionals and operates regionally from: Kuwait, Saudi Arabia, the UAE, Bahrain, Turkey and Egypt. NBK Capital focuses on three primary lines of business:

- ***Asset Management***: with a Group-wide KD 4,469 million in assets under management as at 31 December 2019, the platform focuses on strategies and products which are supported by value-added propositions and solid conviction; ranging from money market, through various fixed-income and equity approaches, to private equity and real estate assets.

The asset management team currently manages the largest and most successful money market funds in Kuwait. The funds tap into both Kuwaiti dinar and U.S. dollar liquidity and are offered in conventional and Shari'a-compliant formats.

- ***Investment Banking***: delivers a fully integrated investment banking platform comprising:
 1. ***Mergers & Acquisitions Advisory***: which delivers optimal deal structures to tailor creative solutions to its clients;
 2. ***Equity Capital Markets***: which is dedicated to creating value for its clients by planning and executing innovative strategies to achieve clients' goals;
 3. ***Debt Capital Markets***: which focuses on the origination, structuring, execution and distribution of a wide variety of debt offerings including conventional, Islamic, senior bank and structured securities, which are further complemented by rating and capital structuring advisory; and
 4. ***Financing Advisory***: which is a dedicated unit that strives to provide clients with transparent services and assists them throughout the entire debt raising process including negotiations.
- ***Brokerage***: NBK Capital's brokerage division offers advanced brokerage services with superior execution capabilities through seamless and direct access to Kuwait, MENA and major international capital markets.

In addition, NBK Capital Smart Wealth is a digital investment service that offers investors a leading solution for long-term investment savings. Investors are able to manage and monitor their investments through NBK Capital Smart Wealth's web portal and/or mobile application.

In 2019, NBK Capital was awarded 'Best Investment Bank in Kuwait' by Euromoney Magazine.

Islamic banking reporting segment

The Group's Islamic banking reporting segment comprises the activities of Boubyan Bank, in which the Group had a 59.9 per cent. holding, The Commercial Bank of Kuwait had a 9.7 per cent. holding and the remaining shares were publicly held as at the date of this Prospectus.

The Group believes that its acquisition of a majority shareholding in Boubyan Bank offers new avenues for growth, diversification and enhancing its customer base by providing a wider variety of banking services. Since the acquisition, Boubyan Bank has experienced increased growth and profitability and has expanded its market share in a number of areas, including personal finance, customer deposits and credit card spend.

Boubyan Bank's core businesses are consumer banking, corporate banking and private banking and wealth management. Boubyan Bank is primarily focused on offering its products and services in Kuwait and has a presence outside Kuwait through its ownership of shareholdings in BLME. Boubyan Bank offers its clients a wide range of banking and financial services through one of the fastest growing branch networks in Kuwait, comprising 43 branches as at 31 December 2019, a network of more than 250 ATMs and telebanking, internet banking and mobile banking.

Boubyan Bank's short-term strategy is to build on domestic foundations with a view to developing an international presence in the medium to longer term. In the domestic market, Boubyan Bank is currently targeting increased market share in both the consumer and the corporate segments. Its strategy focuses on organic growth, emphasising upgrading its product portfolio, focusing on its target customer segments and enhancing its digital proposition.

In relation to its consumer banking operations, Boubyan Bank aims to expand its market share through focusing on high net worth affluent and mass affluent customers and has been working on positioning itself as the bank of choice for the affluent client base. In particular, Boubyan Bank is emphasising improved customer experience, innovation in product offerings, efficient transactions and attracting top talent. Boubyan Bank is also building a comprehensive consumer banking platform in terms of distribution channels to achieve its consumer banking ambitions. Since the Group acquired its majority shareholding in 2012, Boubyan Bank has grown its branch network from 15 to 43 branches, and more than doubled the number of ATMs. Along with expanding its footprint and distribution network, Boubyan Bank's customer satisfaction ratings continue to be higher than the average for both Islamic and all Kuwaiti banks, all of which have contributed to its recent growth in profitability and its increased market shares.

In relation to its corporate operations, Boubyan Bank's main focus is to become the bank of choice for large and mid-size companies while continuing to maintain market share in the super large corporate segment. Boubyan Bank aims to improve its offering in the corporate segment through innovation in products and services. In particular, it has introduced new products such as overdrafts and Istisna, and additional products such as Musharaka, factoring and equipment Ijarah are being developed. Further, Boubyan Bank continues to work on strengthening and improving its processes.

As part of its aspiration to be "the first choice and preferred corporate bank", Boubyan Bank has launched innovative e-products and services to meet all banking needs in line with Islamic Shari'a principles. These products and services include the recent update of its corporate online banking platform and a digital credit approval process.

As at 30 September 2020, Boubyan Bank's total assets (on an unconsolidated basis) were KD 6,276 million and its equity attributable to shareholders of the bank was KD 506 million.

Boubyan Bank's customer financing portfolio was KD 4,648 million as at 30 September 2020 and its aggregate customer deposits and deposits from banks and financial institutions were KD 5,325 million as at the same date. In the nine months ended 30 September 2020, Boubyan Bank's net profit attributable to shareholders of the bank was KD 23 million.

In 2019, Boubyan Bank received a number of international and regional awards in addition to being recognized by many global institutions that are renowned for their fairness and strength. Awards and recognitions include being named "Best Islamic Bank in Kuwait" at the "Banker Middle East" awards, in

addition to being named "Best Islamic Financial Institution in Kuwait" and "Best Islamic Digital Bank in Kuwait, the Middle East and Globally", in each case by Global Finance.

Group centre reporting segment

The Group centre reporting segment includes treasury, investments and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to the Group's clients, and is also responsible for the Group's liquidity and market risk management.

Treasury

- The Group's treasury manages the Group's assets and liabilities and liquidity requirements under the supervision of the Group Assets and Liabilities Executive Committee ("**ALEC**"), which meets at least monthly to monitor and review all aspects of the Group's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash-flow requirements as well as foreign exchange activities in each of the Group's locations are managed by the respective treasury of that location, under the supervision of Group treasury. Asset and liability management, including liquidity management, is managed by Group treasury, in coordination with Group market risk management division.

In addition, the Group's treasury function:

- manages the money market books and money market funding positions for the Group's own account to fund its domestic and international foreign-currency assets;
- undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of the Group's customer base, and conducts a limited amount of proprietary foreign exchange trading within the constraints of what the Group considers to be prudent risk guidelines; and
- maintains a portfolio of Kuwaiti government treasury bills and bonds to meet relevant CBK requirements and to manage surplus domestic currency liquidity.

In 2019, the Group's treasury function completed the development of a new, end-to-end treasury booking system, which will go-live in Kuwait in 2020 and will provide real-time metrics from across the Group. The system comprises a Group-level Treasury function, and will assist the Bank in mitigating and reducing risk, improving efficiencies and increasing revenues.

The electronic trading platform introduced by the Group's treasury function in 2018 saw strong utilisation from corporate clients, generating live FX deals for customers through an easy-to-use browser module. Such innovations further exemplify that the Group offers the most competitive treasury solutions available in Kuwait. These innovations are both unique to the local market and an effective client retention tool, boosting non-interest income while rates remain under pressure due to COVID-19.

In 2019, the Group's treasury function was awarded the '*Best Foreign Exchange Provider in the Middle East and Kuwait*' and '*Best Treasury and Cash Management in Kuwait*' by Global Finance.

Investments

The Group's investments unit is responsible for managing its fixed-income proprietary portfolio with the objective of realising income while minimising the risk of default. The unit combines a bottom-up fundamental credit-research-driven investment process with a top-down macro-economic analysis. The portfolio is diversified, investing in fixed-income securities issued by emerging and developed markets' corporates and sovereigns. The securities are denominated in major currencies and carry investment-grade ratings.

International reporting segment

As at 30 September 2020, the Group has a presence in 15 countries across four continents that provide a diversified platform for sustainable growth in the future. The Group's international network includes branches and subsidiaries in major cities such as London, New York, Paris, Geneva, Singapore and Shanghai. In addition, the Group has a strong presence in the MENA region providing coverage to Bahrain,

Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and the UAE. The Group's international footprint is a key differentiator for the Group and an essential part of its franchise and brand. The Group's international operations are principally wholesale in nature although in certain locations, such as Egypt, it also provides consumer banking services.

The Group has an affiliate stake in Turkish Bank A.S. (34.3 per cent.).

Within select locations in the MENA region, the Group is focusing on growing its corporate business in existing and new markets through attracting international and regional customers and leveraging its Kuwaiti relationships as well as growing its private banking business by building on its success in Kuwait.

In the GCC, the Group believes it is well-positioned to leverage its presence for future growth. The Group currently offers corporate clients and high net worth individuals a range of treasury and wholesale banking credit solutions, both conventional and Shari'a-compliant, in addition to trade finance services and basic consumer banking services. The Group increased its presence in Saudi Arabia in 2019 by opening two additional branches in Riyadh and Khobar with a view to expanding its corporate banking activities and building a retail business in Saudi Arabia.

Egypt remains a strategic market with the Group operating more than 50 branches. NBK Egypt continues to deliver strong results accompanied with positive economic growth and ambitious economic reforms. The Group has been implementing a transformation programme to expand the operations of its Egyptian subsidiary by boosting the acquisition of customers, streamlining processes and upgrading capabilities across all functions. A strong emphasis is being placed on building the quality and reach of the consumer banking business in Egypt, to diversify in terms of both income and operations.

Beyond the MENA region, the Group concentrates on serving the needs of regional corporate and private banking customers that are active internationally, while developing business with international companies that have business or trade linkage within the Group's MENA region footprint. The Group's operations in key financial centres, such as London, New York, Paris, Geneva, Singapore and Shanghai, typically experience strong inflows of capital and deposits from high net worth individuals, financial institutions, oil companies, correspondent banks and government agencies.

The International Banking Group ("IBG") maintains a strong emphasis on promoting cross-selling culture across the Bank's locations and units, recognising the synergies that can be achieved – equally on revenues and costs. Opportunities pursued have included the centralisation of certain back-office processes and functions which has been facilitated by the significant advances that have been made at the Group level to improve the quality and capacity of the Group's underlying technology infrastructure – such as the Kuwait Data Centre, the introduction of Robotic Process Automation, and Blockchain remittance platforms.

The Group plans to maintain investment in technology capabilities including efforts to improve IBG's regulatory and governance functions, to navigate obstacles and mitigate risk.

COMPETITION IN KUWAIT

The Group is the largest bank in Kuwait in terms of total assets, customer deposits and customer loans and advances according to the publicly available financial statements of the Group's main domestic competitors as at and for the nine months ended 30 September 2020.

The Kuwaiti banking sector comprises five indigenous conventional commercial banks (the Bank, Commercial Bank of Kuwait, Gulf Bank, Al-Ahli Bank of Kuwait and Burgan Bank) and branches of 12 other non-Kuwaiti conventional banks. In addition, a specialised bank (Industrial Bank of Kuwait) and five banks operating according to the provisions of Islamic Shari'a (including the largest, Kuwait Finance House, and the Group's subsidiary, Boubyan) are also licensed to operate in Kuwait.

The tables below show rankings for the six largest Kuwaiti banks by consolidated total assets, by consolidated customer deposits and by consolidated customer loans and advances as at 30 September 2020 and 31 December in each of 2019 and 2018.

	As at 30	As at 31	As at 31
	September 2020	December 2019	December 2018
	<i>(KD million)</i>		
Ranking by consolidated total assets ⁽¹⁾			
The Group	30,383	29,271	27,428
Kuwait Finance House	20,961	19,391	17,770
Burgan Bank	6,943	7,081	7,312
Gulf Bank	5,934	6,245	6,016
Al Ahli Bank of Kuwait K.S.C.P.....	5,026	4,883	4,548
Commercial Bank of Kuwait	4,512	4,873	4,468

Source: 30 September 2020 annual financial statements for each bank.

⁽¹⁾ Total assets are based on consolidated figures and include international assets.

As at 30 September 2020, the Group's consolidated total assets represented 58 per cent. of the total consolidated assets of the Kuwaiti conventional commercial banking sector.

	As at 30	As at 31	As at 31
	September 2020	December 2019	December 2018
	<i>(KD million)</i>		
Ranking by consolidated customer deposits ⁽¹⁾			
The Group	17,499	15,931	14,389
Kuwait Finance House	14,914	13,553	11,780
Burgan Bank	4,514	3,991	3,768
Gulf Bank	3,971	3,950	3,735
Al Ahli Bank of Kuwait K.S.C.P.....	3,327	3,320	3,115
Commercial Bank of Kuwait	2,443	2,453	2,292

Source: 30 September 2020 annual financial statements for each bank.

⁽¹⁾ Customer deposits are based on consolidated figures and include international customer deposits.

As at 30 September 2020, the Group's consolidated customer deposits represented 55 per cent. of the total consolidated customer deposits of the Kuwaiti conventional commercial banking sector.

	As at 30	As at 31	As at 31
	September 2020	December 2019	December 2018
	<i>(KD million)</i>		
Ranking by consolidated loans and advances ⁽¹⁾			
The Group	17,634	16,553	15,503
Kuwait Finance House	10,130	9,337	9,385
Burgan Bank	4,373	4,284	4,263
Gulf Bank	4,400	4,438	4,094
Al Ahli Bank of Kuwait K.S.C.P.....	3,304	3,216	3,026
Commercial Bank of Kuwait	2,312	2,267	2,253

Source: 30 September 2020 annual financial statements for each bank.

⁽¹⁾ Customer loans and advances are based on consolidated figures and include international customer loans and advances. Figures for the Group include Islamic financing.

As at 30 September 2020, the Group's consolidated customer loans, advances and Islamic financing to customers represented approximately 55 per cent. of the total consolidated customer loans and advances of the Kuwaiti conventional commercial banking sector.

The Group's current competitive strategy is to focus on maintaining its market leadership positions in its domestic market and to attract new customers through the products and service which it offers. See "*—Strategy—Defend and grow leadership position in Kuwait*".

The Islamic banking sector in Kuwait is attracting a growing customer base, particularly among local cooperative and other similar bodies. A general prohibition on Kuwaiti banks offering financing secured on mortgages of private residences in Kuwait was introduced in 2008. However, in 2011 a court decision resulted in an exception in respect of Islamic banks only, allowing them to finance purchases of residential properties using a mortgage over the property as security. Accordingly, the principal

competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their financing portfolios. Although Boubyan Bank has a smaller balance sheet than certain other Islamic banks operating in Kuwait, its strategy is to differentiate itself by focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths. See "*—Strategy—Geographic and product and service diversification—Strengthening its Islamic banking franchise*".

INFORMATION TECHNOLOGY

To ensure that its IT continues to meet changing business requirements, the Group's IT strategy is structured to optimise people, process and technology (each as discussed further below), with the main focus on governance, organisation, quality, applications portfolios and technology infrastructure.

People

The Group aims to recruit and retain talented and competent IT staff to manage its technology assets and deliver change. In addition, a focus on training and succession planning aims to establish clear career paths for IT staff. However, the Group may consider alternative forms of resourcing in the future, including managed services and selective outsourcing, to allow the IT function to contain costs and better service growing needs in end-user support, network management, mainframe management, tooling, project operations support, service desk and the network operations centre.

Process

The Group believes business process and automation are becoming more aligned, which will reduce manual intervention and enhance workflow. As part of its service improvement programme, change request processes, system development lifecycle, IT service management, IT vendor management, project management, risk and audit management are all within the IT realm of continuous improvement. The system and service tools adopted will help to monitor versions, highlight end-of-life technologies and help stabilise systems to ensure production deficiencies and incidents are kept to a minimum. The Group has recently implemented a new datacentre to safeguard stability, increase availability, provide scalability and enhance customer experience.

Technology

The Group focuses on stability, increased availability and scalability to ensure that its customers are able to access online channels and systems when needed, including online banking, mobile banking, ATMs and branch systems. As a result, the Group has focused on foundation technologies such as the new Tier III active-active datacentre, utilising state of the art network, storage and server technologies, which became operational in December 2018. The Group's disaster recovery site has been transformed to operate in parallel with the new datacentre in a cluster. The Group has also adopted enhanced metrics where both infrastructure and business applications can be fine-tuned with performance-monitoring tools. Since 2013, all Group businesses have measurable, annually-reviewed, service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

The introduction of Robotic Process Automation is an important component of the Group's digitisation strategy, particularly in the role it will play in optimising costs. With over 100 processes identified for automation, the programme will significantly limit the need to increase headcount while eliminating human error to improve quality and increase customer satisfaction.

Data security

The Group has an offsite IT operations centre a primary site located at Al Rai and a secondary site located at Jleeb Al Sheyokh that run as a cluster to support the operations of the Bank. This set up ensures that all systems are fully operational in line with the Group's business continuity plan, providing essential services to its customers. The Group has adopted tapeless technology and carries out daily and other periodic data back-ups which are stored in the primary data centre and replicated online (in real time) to the secondary site.

Additionally, the Group provides near real time back-ups of all critical systems and data to an international location (which is in the United Kingdom) in compliance with CBK instructions. Cyber security maintains its place among the Group's highest priorities and is a key area of investment. In 2019, the Bank expedited its plans to improve the security infrastructure with a two-pillar approach focused on systems and people, considering multiple levels of control. On the systems side, security analysis has included email filtering and controls, as well as web access and browsing exercises.

Data Loss Prevention and End Point Protection were also areas of focus, and the Bank engaged in an aggressive evaluation programme with specialised consultants to review and validate the system of controls. With regard to people, end-user awareness is critical and has been supported by an intensive 'Cyber Security Awareness' test which every member of the Bank was required to learn and pass.

LITIGATION

As at the date of this Prospectus, the Group is not involved in any pending or, to the best of the Group's knowledge, threatened litigation or arbitration proceedings which may constitute a threat to the Bank or to any of its subsidiaries or which would have a material adverse effect on its financial position. Therefore, no material provision has been made as at 30 September 2020 regarding any outstanding legal proceedings.

INSURANCE

The Group maintains various insurance policies and coverage. These include standard property insurance coverage for its assets (premises and contents), bankers' blanket bond coverage, general liability insurance, crime insurance coverage, cyber-crime and cyber-security coverage, staff private medical insurance coverage and professional indemnity insurance coverage. The Group also maintains a limited terrorism insurance cover (based on commercial viability) for its assets in Kuwait, Egypt, Bahrain and other locations. The Group's assets are generally insured on a reinstatement cost basis. The Group's aim is to maintain market standard insurance coverage.

EMPLOYEES

The Group's human resources policy is designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure and access to a "whistleblowing" policy (which enables all employees to raise concerns in good faith and confidence directly to the Chairman).

The Group has developed a "High-Fliers" programme to provide employees identified as possessing leadership potential with exposure to various departments within the Group. In line with its commitment to develop and invest in its key "human capital" resources, the Group collaborates with world-class universities to provide these employees with training in a wide range of leadership disciplines.

As at 31 December 2019, the Group employed 6,970 full-time staff, compared to 6,318 full-time staff as at 31 December 2018 and 6,058 full-time staff as at 31 December 2017.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti Government's recommended policy is that, with effect from June 2019, 70 per cent. of a bank's total personnel in Kuwait should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 30 September 2020 was 71.5 per cent. (which was compliant with the recommended policy at that date) and it is currently in compliance with all other applicable employment regulations.

RISK MANAGEMENT

INTRODUCTION

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

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

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through the Board Risk and Compliance Committee (the "**BRCC**") and the Group Executive Committee (the "**EC**"). These committees ensure that risk-taking authority and policies are effectively communicated from the Board to the relevant business units. The Group's risk management, compliance management and internal audit functions assist executive management in controlling and actively managing the Group's overall risk profile.

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

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

GROUP RISK MANAGEMENT

The Group risk management, which is headed by the Group Chief Risk Officer ("**GCRO**"), reports directly to the BRCC and is responsible for:

- identifying and assessing the key risks faced by the Group;
- measuring the Group's exposure to those risks;
- monitoring this exposure in light of the Group's risk appetite, as approved by the Board;
- determining the Group's corresponding capital needs on an ongoing basis;
- monitoring and assessing major decisions related to risk-taking; and
- following up and evaluating decisions related to certain risks.

The Group risk management comprises the following departments:

- domestic credit risk management;
- international credit risk management;

- operational risk management;
- market risk management;
- insurance and risk financing;
- credit administration; and
- IT risk management and Business continuity

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

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

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

RISK MANAGEMENT STRATEGY

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

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

RISK APPETITE

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

The risk appetite is reviewed and presented by the BRCC to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators.

The Group risk management aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the BRCC and the Board.

SCOPE AND NATURE OF RISK REPORTING TOOLS

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

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

The CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. These tests are performed utilising two sets of assumptions: one based on CBK-prescribed parameters, which are essentially shocks on Pillar 1 risks and the other based on the Group's own assumptions, which are generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK.

These CBK-prescribed parameters cover stress scenarios for interest income, fee income, foreign exchange trading income, falls in collateral value and stock market declines resulting in additional impairment losses. Additional stress tests are conducted from time to time based on CBK requests to quantify potential inherent risks.

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

- responsibilities of the Board and senior management;
- sound capital management;
- comprehensive assessment of Pillar II risks, for example credit (sector and name concentration), liquidity, legal, reputational and strategic risks;
- monitoring and reporting; and
- control and review of the process.

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

PRINCIPAL RISKS

The principal risks faced by the Group are:

- **Credit risk**, which is the risk that one party to a financial instrument will fail to discharge an obligation on maturity, or in a timely manner, causing the other party to incur a financial loss. Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration risk may also arise as a result of large exposures to individuals or a group of related counterparties. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. For further information regarding the Group's credit risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Credit risks*".

- **Market risk**, which is the risk that changes in market prices, such as interest rates, equity prices, commodity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. Market risk is broadly classified into three categories: (i) interest rate risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates; (ii) foreign exchange risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates; and (iii) equity price risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. For further information regarding the Group's market risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Market Risk*".
- **Liquidity risk**, which is the risk that the Group will be unable to meet the payment obligations associated with its financial liabilities when they fall due and/or replace funds when they are withdrawn. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking reputational damage. For further information regarding the Group's liquidity risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Liquidity risks*".
- **Operational risk**, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and includes fraud, unauthorised activities, error, omission and inefficiency. Operational risks can expose the Group to potentially large losses and, while the Group cannot eliminate all operational risk, it has developed a comprehensive process of identifying, assessing, monitoring and reporting operational risk internally. For further information regarding the Group's operational risk, see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Operational risks*".

Credit risk

Credit risk management strategy

Senior management implements the credit risk strategy approved by the Board following the recommendations of the BRCC and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The EC, chaired by the GCEO and comprising senior executives from the business divisions, meets regularly to review significant credit policies and the Group's corporate and consumer credit portfolios and advises the Board appropriately. All significant credit policies and amendments to policies are reviewed and approved annually by this committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.

In compliance with CBK regulations, lending to individual Board members and related parties is fully secured and monitored by the senior credit committee and the BCC. Furthermore, facilities granted to these related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board in accordance with authorities granted by the shareholders' general assembly.

Country limits are determined based on an analysis of economic, social and political factors, taking into consideration reliable data, reports by recognised and creditable market sources and the application of local business and market knowledge. Significant country-limit exposures are subject to periodic review and approval by the Board or the BCC.

Corporate credit risk management

Corporate credit facilities are granted based on detailed credit risk assessments that consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer group.

Internal credit-rating models are regularly reviewed by the Group risk management function in coordination with line management and the EC and are continually enhanced in line with industry credit risk management best practices.

All new credit proposals along with reviews of, and material changes to, existing credit facilities are evaluated and approved by an appropriate credit committee. The Group has the following hierarchy of credit committees at the head office level:

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

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

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

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

Consumer credit risk management

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

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the EC and significant policies are ratified by the Board.

Credit review procedures and loan classification

Corporate and SMEs

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

The risk-rating process derives obligor risk-ratings ("**ORRs**") and facility risk-ratings ("**FRRs**"). The rating methodology focuses on factors such as operating performance, liquidity, debt service and capital structure. The ratio analysis includes the assessment of each ratio's trend across multiple periods, in terms of both rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessments of the operations, liquidity and capital structure are also included in the assessment. The ORR yields a scale of 10 ratings for performing obligors plus three for non-performing obligors and reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility. The Group has implemented risk-rating models for commercial, real estate, high net worth individuals and project finance facilities.

The Group also has an approved framework for FRRs. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk-mitigating factors are reflected in the FRR.

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

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

Financial institutions

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

Consumer lending

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

Consumer credit risk is monitored with three lines of defence. In the first line of defence, the consumer business lending group is responsible for adherence to credit policies, controls and processes. In the second line of defence, the consumer credit risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline and policies. The third

line of defence, the internal audit function, independently tests, verifies and evaluates controls for effective credit risk management and the implementation of policies and procedures.

Portfoliomangement

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

The table below shows a classification of the Group's customer loan portfolio by credit quality as at 31 December in each of 2019, 2018 and 2017 and has been extracted from note 30.1.4 to the 2019 Financial Statements and note 30.1.4 to the 2018 Financial Statements.

	<u>Neither past due nor impaired</u>		<u>Past due but not impaired⁽³⁾</u>	<u>Past due and impaired</u>	<u>Total gross customer loan portfolio</u>
	<u>High⁽¹⁾</u>	<u>Standard⁽²⁾</u>			
			(KD thousands)		
31 December 2019.....	15,529,923	1,219,147	125,361	186,903	17,061,334
31 December 2018.....	13,989,649	1,678,633	119,134	221,694	16,009,110
31 December 2017.....	13,154,016	1,644,268	105,746	214,092	15,118,122

⁽¹⁾ Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and repayment capacity which are considered to be good to excellent.

⁽²⁾ Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

⁽³⁾ Credit exposures classified as "Past due but not impaired" are facilities that are past due up to a maximum period of 90 days. Upon 91 days past due, the facilities are classified as impaired.

As at 31 December 2019, 31 December 2018 and 31 December 2017, 91.4 per cent., 93.2 per cent. and 90.7 per cent., respectively, of the past due but not impaired category was 60 days or less past due, with the remaining loans being between 61 and 90 days past due.

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2019 was KD 92 million (31 December 2018: KD 84 million and 31 December 2017: KD 91 million).

Loan monitoring

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

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

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

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

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

Credit risk mitigation strategy

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

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 per cent. of the Group's regulatory capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis nor to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

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

The main types of collateral accepted by the Group are:

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

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

The custody and daily mark-to-market of financial collateral are performed independently of the business units. Except for private residences, real estate collateral is valued on an annual basis.

For each of the years ended 31 December 2019, 31 December 2018 and 31 December 2017, respectively, approximately 48 per cent. of the Group's loans, advances and Islamic financing to customers portfolio (excluding consumer loans and net of provisions) was secured by collateral, primarily including cash, shares and real estate collateral.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the covered loan. The most liquid collateral (such as cash and listed shares) can then be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant loan.

The collateral enforcement process in Kuwait in respect of real estate involves a number of steps. Given the fact that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between 36 and 48 months and, in difficult cases, up to 60 months.

Consumer loans are generally not secured. However, before granting consumer loans, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

Impairment, expected credit loss and/or provisions

Policy since 1 January 2018

Since 1 January 2018, the Group computes ECLs on the following financial instruments which are not measured at fair value through profit or loss:

- loans and advances, Islamic financing to customers including credit commitments;
- letters of credit and financial guarantee contracts including commitments;
- investment in debt securities measured at amortised cost or fair value through other comprehensive income; and
- balances and deposits with banks.

Equity investments are not subject to ECL.

Credit facilities

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

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

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

Impairment of financial assets other than credit facilities

The Group recognises ECL on investment in debt securities measured at amortised cost or at fair value through other comprehensive income and on balances and deposits with banks.

ECLs

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

- **Stage 1: 12-month ECL:** The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been a significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of investment grade.
- **Stage 2: Lifetime ECL – not credit-impaired:** The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but the financial assets are not credit-impaired.
- **Stage 3: Lifetime ECL – credit-impaired:** The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit-impaired based on objective evidence of impairment.

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

Determining the stage of Expected Credit Loss

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

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

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

At the reporting date, if the credit risk of a financial asset has not increased significantly since initial recognition or is not credit-impaired, the financial asset is classified as Stage 1.

Measurement of ECLs

ECL is a probability-weighted estimate of credit losses and is measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfalls represent the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The key elements in the measurement of ECL include PD, LGD and exposure at default ("**EAD**"). The Group estimates these elements using appropriate credit risk models taking into consideration all relevant information, including the internal and external credit ratings of the asset and the nature and value of any collateral and forward looking macro-economic scenarios, which primarily reflect reasonable and supportable forecasts of future macro-economic conditions.

Modification of loans and Islamic financing to customers

Under certain circumstances, the Group seeks to restructure loans and Islamic financing to customers rather than taking possession of collateral. This may involve extending the payment arrangements, a reduction in the amount of principal or interest or profit and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. In cases where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL, except in the rare occasions where the new financing is considered to be originated credit-impaired. This applies only in cases where the fair value of the new financing is recognised at a significant discount to its revised par amount, because there remains a high risk of default which has not been reduced by the modification. Management continuously reviews modified loans and Islamic financing to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk or the facility should be classified in stage 3. When loans and Islamic financing to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

Write off

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at fair value through other comprehensive income, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities.

When the Group is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Policy prior to 1 January 2018

Prior to 1 January 2018, the Group assessed, at each reporting date, if there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if and only if there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event had had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. If such evidence existed, any impairment loss was recognised in the consolidated statement of income.

In relation to the Group's customer loans and advances, which were typically carried at amortised cost, the amount of impairment loss was measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be connected objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss was reversed by adjusting the allowance account. The amount of the reversal was recognised in the consolidated statement of income.

Provisions for credit losses in accordance with CBK instructions

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

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

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

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

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

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When 25 per cent. of the rescheduled debt balance has been repaid, the provision committee may reduce the provision to an amount not less than 20 per cent. of the debt balance.

In addition to specific provisions, minimum general provisions of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain restricted categories of collateral) are required to be made for all facilities in respect of which no specific provision has been made.

MARKET RISK

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

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

- the implementation of a Market Risk Management Framework;
- well-defined processes and strong and effective controls;
- recognition of market risk as inherent in the Group's business model and macro-economic environment;
- clear segregation of "front", "back" and 'middle' office duties;
- the Group's approach to accepting, limiting and increasing market risks;
- regular and effective monitoring and reporting of exposures and risk measures;
- regular monitoring of market prices and valuation of financial instruments;
- a defined set of internal limits and regular reporting on the adherence to those limits;
- regular independent reviews of internal controls and limits; and
- implementation of adequate infrastructure.

Market risk management

The Group's market risk management consists of governance, identification and measurement and management and limit setting (risk appetite), as well as reporting/management information.

The Board is ultimately responsible for determining and setting the amount of market risk that the Group is exposed to as a result of executing its business strategy through the Group's risk appetite. The EC is responsible for ensuring all market risks are monitored and maintained within approved limits. All activities giving rise to market risk are conducted within a structure of approved credit and position limits. Group Market Risk Management independently measures, monitors and reports on Bank's market risk exposure. Unresolved material breaches to risk limits are reviewed by a subcommittee of the EC and either approved or recommended for remedial action. The Group Asset Liability Management unit is responsible for supervising the management of market risk exposure.

The General Manager of the Treasury Group and General Managers in overseas locations are responsible for managing the Group's trading activities.

Market risk arising from trading activities

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

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

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

Non-trading market risk in the banking book

The Group's key non-trading market risk is the sensitivity of its net interest income to movements in interest rates. This interest-rate risk in the banking book is managed through a "re-pricing gap" limit structure which is supplemented by periodic analysis of scenarios (instantaneous parallel shift of +/-5 basis points and +/-10 basis points to the yield curve) to capture the sensitivity of the exposure to interest rate changes.

This analysis of scenarios showed the following impacts in the banking book as at the dates stated:

	+5 bps	-5 bps	+10 bps	-10 bps
		(KD thousands)		
31 December 2019.....	2,168	(2,168)	4,336	(4,336)
31 December 2018.....	2,040	(2,040)	4,080	(4,080)
31 December 2017.....	2,333	(2,333)	4,666	(4,666)

The Group does not use the results of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in scenario analysis. Such assumptions include assumptions that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action is taken to mitigate the impact of interest rate risk. In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not believe that it is excessively exposed to interest rate risk as most of its assets and liabilities are re-priced regularly and much of its exposures arising on medium-term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. In addition, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board and adjusted where necessary to reflect the changing market conditions. In the case of certain consumer loans denominated in Kuwaiti dinar, the Group is exposed to some interest rate risk, since interest rates on those loans are not re-priced for the first five years and then the subsequent permitted adjustments are restricted in amount.

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest-bearing financial assets and financial liabilities held at the year-end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rates on the fair value of investments in debt securities classified as fair value through other comprehensive income/available for sale. Sensitivity to interest rate movements is symmetrical as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held as at 31 December 2019, 31 December 2018 and 31 December 2017, respectively, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

Currency	Movement in basis points	2019		2018		2017	
		Effect on Profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
<i>(KD thousands)</i>							
KWD.....	+25	7,588	—	7,810	—	7,729	—
USD.....	+25	2,174	(3)	1,333	(17)	728	(69)
EUR.....	+25	573	—	1,165	—	1,930	—
GBP.....	+25	550	—	604	—	1,029	—
EGP.....	+25	23	(37)	67	(8)	328	—

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits, established by the Board (which are within regulatory limits set by the CBK) and implemented by executive management, on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange rate exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an on-going basis.

The table below shows the effect on profit of an assumed 5 per cent. strengthening in value of the currency rate against the Kuwaiti dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

Currency	2019	2018	2017
<i>(KD thousands)</i>			
	+5%	+5%	+5%
USD.....	3,071	3,254	181
GBP.....	156	49	(2)
EUR.....	(8)	(7)	34
EGP.....	79	(75)	(181)
Other.....	(298)	(122)	(53)

Equity price risk

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

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

The table below shows the effect of equity price risk on the Group's profit (as a result of changes in the fair value of equity investments held as fair value through profit and loss) and on the Group's equity (as a result of changes in the fair value of equity investments classified as fair value through other comprehensive income/ available for sale) as at the dates provided based on an assumed 5 per cent. change in market indices, with all other variables held constant.

Market indices	2019		2018		2017	
	Effect on profit	Effect on equity	Effect on profit	Effect on equity	Effect on profit	Effect on equity
<i>(KD thousands)</i>						
Kuwait stock exchange.....	128	10	117	16	—	219
Qatar stock market.....	172	—	132	—	—	93
UAE stock indices.....	230	1	166	3	—	264
Saudi Stock Exchange.....	600	—	638	—	—	512

Liquidity Risk

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

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

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

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

- to ensure the strategies are in conformity with the regulatory requirements of the CBK and the requirements of the local regulators in other jurisdictions where the Group operates;
- to ensure the use of proper tools in ascertaining liquidity risk;
- continuously to seek sources of stable customer funds and to keep its funding costs as low as possible;
- to limit its dependence on the use of short-term inter-bank funding;
- to leverage its strong position, reputation and credit strength in order to secure long-term funding, such as customer deposits, institutional deposits, government deposits and debt issuance at a competitive cost;
- to ensure the Group's ability to generate or obtain cash or its equivalent in a timely and cost-efficient manner so that the Group can meet its obligations;
- to maintain market confidence; and
- to ensure profitable business opportunities can be pursued without liquidating assets at undesirable times, or raising additional unsecured funding on an unreasonable scale or timescale.

The liquidity and funding management process includes:

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

In accordance with the Basel III framework, as implemented by the CBK, the Group manages its liquidity through compliance with the LCR. As part of its requirements to report its liquidity position to the CBK in compliance with the LCR, the Group manages its internal liquidity through periodic internal 30-day and 60-day LCR stress tests which are more conservative than the Basel II

requirements. Additionally, the Group's treasury division invests in various short-term or medium-term, highly marketable assets in line with Basel III guidelines for HQLAs (such as government and central bank securities in jurisdictions in which the Group has operations).

The three month average HQLA as of 30 September 2020, was KD 6,797 million and the LCR ratio was 152.2 per cent. (31 December 2019: HQLAs valued at KD 5,833 million and LCR ratio of 159.67 per cent., 31 December 2018: HQLAs valued at KD 5,595 million and LCR ratio of 163.0 per cent. and 31 December 2017: HQLAs valued at KD 5,748 million and LCR ratio of 168.7 per cent.). See "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Liquidity risks*" for more information.

The ALEC monitors compliance to these ratios internally at least on a monthly basis.

In accordance with the Basel III framework, as implemented by the CBK, the Group also manages its liquidity through compliance with the NSFR. Starting from 1 January 2018, the Group has monitored and reported its NSFR in line with CBK instructions. As at 30 September 2020, the NSFR ratio was 114.4 per cent. (31 December 2019: 111.1 per cent., 31 December 2018: 112.6 per cent.)

The Group maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further reduced by the Group's adherence to the CBK's liquidity requirements which comprise:

- maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less;
- a requirement to hold 18 per cent. of KD customer deposits booked in the Group in Kuwaiti government treasury bills and bonds, current account/deposit balances with the CBK and/or any other financial instruments issued by the CBK; and
- a requirement to keep sufficient funding against loan generation, as required by the CBK under its loan to deposit ratio requirements.

As at the date of this Prospectus, the Group was fully compliant with the CBK's liquidity requirements set out above.

The Group has a well-defined Repurchase Agreement ("**Repo**") policy in place as a means of raising liquidity. Repos and reverse repos are governed by master agreements with netting terms based on the Global Master Repurchase Agreement ("**GMRA**"), including holding collateral in the form of cash. The Group also has a contingency funding plan to manage a stressed liquidity situation created by bank-specific issues or by market-wide (systemic) liquidity disturbances. The purpose of the plan is to provide a framework within which an effective response to a liquidity crisis can be managed.

In order to assist Kuwaiti banks in managing their liquidity positions during stressed conditions, the CBK provides a "repo window" for portfolios of CBK bonds and Kuwait Government treasury bonds held by Kuwaiti financial institutions. In exceptional circumstances, additional discretionary liquidity support is available from the CBK, including the ability to access funding at the CBK discount rate.

Note 30 to each of the Annual Financial Statements sets out the maturity profiles of the Group's assets and liabilities based on contractual cash flows and maturity dates and on contractual repayment arrangements.

DERIVATIVES

A financial derivative is an instrument whose value is derived from the performance of underlying assets which may include reference rates and indices. Derivatives are designed to provide more flexibility and granularity in financial markets, and are also used as risk hedging instruments.

The Group enters into various types of transactions that involve financial derivative instruments in the ordinary course of its business.

The Board has approved a range of derivative products for use, including:

- foreign exchange forwards and futures;
- foreign exchange swaps;
- interest rate swaps (including amortising and ascending swaps);
- cross-currency interest rate swaps (including amortising and ascending swaps);
- total return swaps; and
- foreign exchange options contracts, including plain calls and puts, collars, knock-ins, knock-outs, Asian and digital options.

Other more complex derivative products may only be used in line with the requirements of specific approvals by relevant authorising bodies.

The Group also transacts in derivative instruments both as principal, solely to manage its own financial risk, and on behalf of its clients. In the latter case, the Group covers the exposure which it assumes on a back-to-back basis with market counterparties to avoid taking any market risk. The Group deals in interest rate swaps to manage its interest rate risk on interest-bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualify as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purposes but do not meet the qualifying criteria for hedge accounting.

Derivative financial instruments are carried at fair value in the Group's consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction as at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counterparties of replacing all their transactions with the Group.

The fair values and notional amounts of the Group's positions in these instruments are set out in note 28 to the each of the Annual Financial Statements and note 12 to the Interim Financial Statements.

Counterparty credit risk

The Group Risk Management function independently monitors counterparty credit risk exposures arising from the Group's derivatives transactions using the concept of Potential Future Exposure ("PFE"). The PFE is defined as the maximum expected credit exposures over a specified horizon at a particular confidence level. As such, the risk exposure is an upper bound of possible exposures at the selected confidence level and not the maximum risk exposure possible. For the year ended 31 December 2019, the Group's PFE on its derivatives transactions amounted to KD 22 million. For the nine months ended 30 September 2020, the Group's PFE on its derivatives transactions amount to KD 16 million.

Assignment of credit limits for counterparty credit exposures

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

Policies for securing collateral and credit reserves

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

Additional collateral requirements due to credit rating downgrade

The Group has no provisions in its agreements with counterparties where a downgrade in its credit rating will have an impact on the collateral amount to be posted. The Group also does not enter into derivatives whose valuations depend on the credit quality of the counterparty.

Netting

In response to the various regulations, including the European Market Infrastructure Regulations ("EMIR"), and uncertainties regarding the binding nature and enforceability of "netting" arrangements and agreements under the laws of Kuwait, the market practice amongst leading banks in the GCC active in the derivatives market has been to create special purpose companies in netting-friendly jurisdictions for the exclusive purpose of dealing in the OTC derivatives market with European banks. The International Securities and Derivatives Association has classified the Cayman Islands as a netting-friendly jurisdiction. The Group has, with the approval of the CBK, established NBK GDM (Caymans) Limited to deal in financial derivatives products, which allows the Group to continue dealing with highly-rated counterparties on derivative transactions with netting arrangements in place and removes the risk that the Group may be required to post "margin" collateral on an asymmetric basis.

Operational Risk

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

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

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

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

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

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

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

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

Group Compliance and Governance

The Group Compliance and Governance division is a key component of the Group's system for managing compliance risks. The Compliance and Governance division operates independently and supervises and participates in developing internal procedures in conformity with regulations. The main role is to support the Group and its management in navigating compliance risks, embedding and improving the compliance arrangements in all levels and structures of the Group and to ensure the Group operates with integrity and adheres to applicable laws, regulations and internal policies. The Group Compliance and Governance division is headed by the Group Chief Compliance and Governance Officer ("GCC&GO"), who reports directly to the BRCC. The Group Compliance and Governance division has the following objectives and responsibilities:

1. Review the compliance risk processes that are in place to anticipate and effectively manage the impact of regulatory change on the Group's operations.
2. Review and endorse the contents of the Group's annual risk and compliance reports submitted to the CBK.
3. Oversee the implementation of the policy, and ensure compliance issues are resolved effectively and expeditiously by senior management with the assistance of the compliance function.
4. Ensure the Group (including each subsidiary and branch in every jurisdiction of operation) abide by all relevant laws and regulations applicable to it.
5. Ensure the Group's compliance with the regulations related to the Anti-Financial Crime, Foreign Account Tax Compliance Act (FATCA), Common Reporting Standard (CRS) and other similar applicable regulations.
6. Ensure the existence of clear reporting lines, authority and accountability for managing, monitoring and reporting risks as performed internally and as required by CBK and applicable laws and regulations.

The Group Compliance management comprises the following departments:

- Regulatory Compliance;
- Corporate Governance and Capital Markets Authority Compliance
- Tax Compliance;

- Anti-Financial Crime;
- Credit Compliance;
- Regulatory Capital and Impairments; and
- Model Validation.

The Group's compliance programme has three main pillars (advise, monitor and report) built on a foundation of a sound understanding of the appropriate regulatory requirements. Advising encompasses the internal notification of regulatory change, new products and services and internal processes as well as other internal communications including training and a compliance calendar. Monitoring includes procedures for compliance reviews, breach escalation, complaints handling and compliance indicators.

Anti-money laundering ("AML") and counter-terrorism financing ("CTF")

The Group has an AML/CTF policy and procedures which take into account Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the U.S. Office for Foreign Assets Control) and applicable local and international laws and regulations. As the Group has a presence in various jurisdictions, it seeks to apply the most stringent of the different requirements applicable to it.

The Group's AML/CTF policy covers the following key areas:

- customer due diligence, which includes know your customer, enhanced due diligence, event-driven reviews and periodic reviews;
- ongoing screening of customers against all sanction/prohibited lists to ensure compliance with international/local sanctions lists;
- transaction monitoring;
- product assessments;
- staff training; and
- payments (SWIFT) screening against sanctions lists.

In addition, the Group uses a risk-based approach to classify customers as high, medium and low risk and enhanced due-diligence is conducted for customers who are rated as high risk. Factors used for classification include but are not limited to the nature of the ultimate beneficial owner, products and jurisdiction concerned.

Anti-bribery and corruption

The Group is committed to conducting business in an ethical and honest manner and to implementing and enforcing systems which ensure bribery is prevented. The Group has no tolerance for bribery and corrupt activities and is committed to acting professionally, fairly and with integrity in all business dealings and relationships, wherever it operates. The Group's anti-bribery & corruption policy, which is in its implementation phase, sets out the responsibilities of the Group and those who have a working or business relationship with it in relation to observing and upholding its zero-tolerance position on bribery and corruption.

The areas defined by the Group as having increased bribery risk are:

- accepting and offering gifts, hospitality and entertainment;
- political contributions;
- charitable donations;
- facilitation payments; and

- dealing with third parties.

In order to establish efficient controls against violations of the anti-bribery & corruption policy requirements, there are a number of internal standards and procedures in place, including but not limited to:

- code of ethics;
- code of conduct;
- know your partner procedures, including a risk assessment of the type of third parties the Group is engaged with;
- assessment of the Group's business lines;
- gift and hospitality instructions;
- whistleblowing policy; and
- incident and risk escalation procedures together with management information process.

Global data protection regulation ("GDPR")

The Group has presence in a number of territories and this includes two subsidiaries in the EU, in France and The Netherlands. Group entities in EU locations are "Data Controllers" (as defined in the GDPR) in respect of various types of personal data obtained from data subjects locally, whilst certain Group entities located outside the EU receive data from those Group entities in the capacity of Data Processors (as defined in the GDPR). Further, the Group in Kuwait also centrally monitors Kuwait data subjects in respect of fraud monitoring and AML/CTF in relation to transactions they perform globally (including at EU locations) and therefore GDPR may be directly applicable to the Group under the provisions of the extra-territorial applicability of the GDPR.

In this connection, the Group has developed a specific data privacy policy that is applied in Kuwait as well as at various EU locations and in the United Kingdom. The Group has also taken steps to assess its footprint in respect of transactions and dealings which may be considered to be within the scope of GDPR and reviewed the associated privacy risks and legal implications of such transactions. The Group has taken appropriate legal advice to assist it in implementing the GDPR requirements at a Group level, including agreements between Group entities in relation to service levels and data transfers in accordance with the GDPR requirements as well as clear definition of roles within concerned entities to manage privacy requirements and enhancement of internal processes.

The Group has taken steps to leverage Group-level capabilities to manage its IT systems centrally and host systems of multiple Group entities at the Group in Kuwait. This strategy of centralised hosting and management of IT systems is impacted by the GDPR given that Group entities in EU jurisdictions and the United Kingdom transfer personal data to the Group in Kuwait. The Group's EU entities have taken appropriate legal advice and implemented measures to comply with the GDPR requirements as Data Controllers and have entered into legally-binding agreements with the Group acting as a Data Processor.

MANAGEMENT

CORPORATE GOVERNANCE FRAMEWORK

The Bank has developed a corporate governance framework which is based on international best practice and the CBK's "Rules and Standards of Corporate Governance in Kuwaiti Banks" which were issued in June 2012. On 10 September 2019, the CBK issued a revision to the corporate governance regulations effective from 30 June 2020. The core principles and standards of the Bank's corporate governance framework are embedded into the day-to-day business and practices of the Bank, with particular oversight at the Bank's board of directors (the "**Board**") level and at Board committee level through the Board Corporate Governance Committee (the "**BCGC**").

The framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency, accountability and Board independence.

The Board, together with the BCGC, reviews and updates the corporate governance framework on an annual basis which is documented in the Board-approved corporate governance manual. The Group's executive management ensures the framework is implemented through policies and procedures, and employees are required to follow the corporate governance requirements in accordance with the governance manual.

Based on the newly issued revised corporate governance regulations, the Bank is in the process of implementing new provisions related to the composition of Board and Board sub-committees and membership of independent Board members. On 1 April 2020, the Bank opened the nomination process for two independent board members. However, due to COVID-19 and the resultant impact on government agencies, the CBK has extended the election deadline from 30 June 2020 until 31 December 2020. The Bank is in the process of finalising the required regulatory documentation for the two independent board member positions.

The Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

BOARD

The Group operates under the direction of the Board, which is the principal decision-making forum with overall responsibility for the Group's strategy and for monitoring performance of the Group's businesses and executive management. As at the date of this Prospectus, the current Board comprises nine non-executive members. However, by December 2020, two additional independent board members will join the Board which will then comprise eleven members, nine of whom will be non-executive members while the remaining two will be independent members. A General Assembly meeting will be convened before the end of 2020 to elect the additional independent board members. Additionally, at the General Assembly meeting held on 7 March 2020, the articles of association were amended to include that with effect from 30 June 2022, the Board shall consist of thirteen members of whom four shall be independent members, provided that the number of independent members shall not exceed half of the members of the Board. Each member of the Board is elected at a shareholders' general assembly meeting for a period of three years. All elected directors seeking to serve an additional term are required to seek re-election by the shareholders every three years.

In line with CBK requirements, the Board convenes at least once each quarter. The Board convened a total of eight times in 2019.

The primary mandate of the Board is to align the Group's strategic objectives, risk appetite and overall corporate governance framework with the best interests of the Group and thereby maximise value for shareholders. This mandate is coupled with responsibility for monitoring and maintaining the Group's financial and economic stability and safeguarding the rights and benefits of all of the Group's stakeholders.

The roles of the Chairman of the Board and the Group Chief Executive Officer ("**GCEO**") are separate and independent of one another and there is a clear segregation of their respective duties and responsibilities.

The Chairman's responsibilities are set out in full in the Board Charter but, in summary, his main responsibility is to lead the Board and ensure the effective engagement and contribution of all directors, so that the Board may fully discharge its legal and regulatory responsibilities.

The Board appoints the GCEO and specifies his powers and authority. The day-to-day management of the Group's business has been delegated by the Board to the GCEO, who is assisted by the other members of the executive management. The GCEO, assisted by the other members of the executive management, is responsible for controlling and monitoring the Group's business on a day-to-day basis, recommending strategy to the Board, leading executive management and implementing the Board's strategic and operational decisions.

Any candidate for appointment as a director must first be recommended by the Board Nomination and Remuneration Committee ("**BNRC**") and approved by the Board, the CBK and the Bank's shareholders at the annual general meeting. Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person) at the meeting.

Board members

The table below shows the names of the members of the Board as at the date of this Prospectus.

Name	Position
Mr. Nasser Musaed Abdulla Al-Sayer.....	Chairman
Mr. Ghassan Ahmed Saoud Al-Khaled.....	Vice-Chairman
Mr. Hamad Abdul Aziz Al-Sager.....	Board Member
Mr. Yacoub Yousef Abdulaziz Al-Fulajj.....	Board Member
Mr. Hamad Mohammed Abdulrahman Al-Bahar.....	Board Member
Mr. Muthana Mohammed Ahmed Al-Hamad.....	Board Member
Mr. Haitham Sulaiman Al-Khaled.....	Board Member
Mr. Emad Mohamed Abdulrahman Al-Bahar.....	Board Member
Mr. Talal Jassem Mohammad Al Kharafi.....	Board Member

Set out below is brief biographical information about each member of the Board as at the date of this Prospectus.

Mr. Nasser Musaed Abdulla Al-Sayer – Chairman

Mr. Al-Sayer has been a Board member since 1980. He was appointed as Chairman of the Board in August 2014 (having served as Vice-Chairman of the Board since 1993). He is also Chairman of the BCGC.

Mr. Al-Sayer has been a board member of the Kuwait Banking Association since 1999, where he was also the Chairman from 1999 to 2006. He was also a member of the Supreme Council for Planning & Development (which is chaired by H.E. The Prime Minister of Kuwait). Mr. Al-Sayer was Deputy General Manager of the Kuwait Fund for Arab Economic Development from 1973 to 1978 and a Board member from 1994 to 2000. Mr. Al-Sayer has considerable experience in banking, investment, strategic planning and governance in both the private and public sectors.

Mr. Al-Sayer holds a Bachelor of Arts degree in Economics from Oklahoma State University, United States.

Mr. Ghassan Ahmed Saoud Al-Khaled – Vice-Chairman

Mr. Al-Khaled has been a Board member since 1987 and has served as Vice-Chairman since August 2014. He is also chairman of the Board Risk and Compliance Committee and chairman of the Board Audit Committee.

Mr. Al-Khaled is the Vice-Chairman and Managing Director at ACICO Industries Co. He has experience in corporate banking, trade finance, credit and the retail sector.

Mr. Al-Khaled holds a Bachelor of Science degree in Civil Engineering from West Virginia University, United States.

Mr. Hamad Abdul Aziz Al-Sager – Board Member

Mr. Al-Sager has been a Board member since 1983. He also served as a Board member from 1975 to 1976. He is chairman of the Board Credit Committee and a member of the BCGC.

Mr. Al-Sager was a board member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in the banking industry, especially in corporate credit.

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

Mr. Yacoub Yousef Al-Fulaij – Board Member

Mr. Al-Fulaij has been a Board member since 1998. Mr. Al-Fulaij is a member of the Board Credit Committee and the BCGC.

Having previously been a General Manager at the Bank from 1983 to 1998, Mr. Al-Fulaij has broad experience in banking activities, including risk management and internal controls.

Mr. Al-Fulaij holds a Bachelor of Arts degree in Business Administration from the University of Miami, United States.

Mr. Hamad Mohammed Abdulrahman Al-Bahar – Board Member

Mr. Al-Bahar has been a Board member since 2005. He is the Chairman of the Board Nomination and Remuneration Committee and is a member of the Board Credit Committee.

Mr. Al-Bahar was on the board of the Kuwait Investment Company from 1981 to 1991, where he served as the Chairman and Managing Director. He was also the Managing Director of Bank of Bahrain and Kuwait. He has extensive experience in investment banking and asset management, in addition to experience in internal controls.

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

Mr. Muthana Mohammed Ahmed Al-Hamad – Board Member

Mr. Al-Hamad has been a Board member since 2007. He is a member of the BCGC, BRCC, BAC and the BNRC.

Mr. Al-Hamad is also a board member of Al-Watyah United Real Estate Company. He was previously the Chairman of Future Communication Company International (between 2005 and 2014), a board member of Arab European Company for Financial Management from 1987 to 1993, a board member of the Commercial Bank of Kuwait from 1993 to 1997 and a board member of United Bank of Kuwait from 1996 to 1997. He has considerable experience in finance and business economics.

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

Mr. Haitham Sulaiman Hamoud Al-Khaled – Board Member

Mr. Al-Khaled has been a Board member since 2010. He is a member of the Board Audit Committee, the Board Risk and Compliance Committee and the BCGC.

Mr. Al-Khaled has served as a board member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan Global Real Estate Company since 2010. He is also the Chairman of Al Arjan International Real Estate Company since 2014. Mr. Al-Khaled previously held a number of senior positions at the telecom operator Zain, including Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer. He has extensive experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls.

Mr. Al-Khaled holds a Bachelor of Science degree in Electronic Engineering from Kuwait University, Kuwait.

Mr. Emad Mohammed Abdulrahman Al-Bahar – Board Member

Mr. Al-Bahar has been a Board member of the Bank since August 2014, following the death of the late Chairman, Mr. Mohamed Abdulrahman Al Bahar. He is a member of the Board Credit Committee and the BNRC.

Mr. Al-Bahar is a member of the executive board of the Al Bahar Group, which is one of the oldest trading conglomerates in Kuwait and the Middle East. He is also a member of the board of Al-Ahleia Insurance Company Kuwait and of other overseas companies.

Mr. Al-Bahar holds a Management Degree from the American University of Washington, United States.

Mr. Talal Jassem Al-Kharafi – Board Member

Mr. Al-Kharafi has been a Board member since March 2019. He is a member of the Board Risk and Compliance Committee and the BNRC.

Mr. Al-Kharafi has been the chief executive officer of Kuwait British Readymix Company since 2015 and a board member of Kuwait Egyptian Holding Company since 2015. He was a board member of Asia Investment Company from 2005 till 2018 and a board member in Mobile Telecommunication Company (Zain) in 2017 in addition to being a board member in other companies in Kuwait. He has been a board member of the Kuwait Chamber of Commerce since 2008. He has considerable experience in finance and business economics.

Mr. Al-Kharafi holds a Bachelor's degree in Political Sciences from Kuwait University, Kuwait.

The business address of each member of the Board is National Bank of Kuwait S.A.K.P., P.O. Box 95, Safat, 13001 Kuwait, Jaber Al-Mubarak and Al-Shuhada Street, NBK Tower, Sharq, State of Kuwait.

Certain members of the Board, their families and companies of which they, or members of their families, are principal owners, or of which they are employees, are customers of the Group in the ordinary course of business. The transactions with these parties are made at arm's length and on substantially the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties. See "*Financial Review—Related Party Transactions*".

Except as disclosed in the next paragraph, no member of the Board named in the table above has any actual or potential conflict of interest between his duties to the Group and his private interests and/or other duties.

Each of the directors of the Bank named in the table above has outside interests in entities other than the Group, including employment and/or directorships with third parties (as set out in their respective biographies). Given the wide scope of the Group's operations, such entities have banking and/or other commercial relationships with the Group. Some Board members also have personal banking relationships with the Group. As the directors are involved in the Group's decision-making process and have knowledge of the Group's products and services, including the commercial terms thereof, a potential conflict of interest may arise. However, the Group has established robust internal procedures to deal with any such potential conflict, including the relevant director being excluded from voting at Board meetings on issues which relate to the relevant director's and/or other connected entity's dealings with the Group.

The Group is committed to managing all related party transactions and potential conflicts of interest which may arise and to meet the Group's obligations to maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to identify, monitor and manage related party transactions and conflicts of interest.

The Group has adopted "Related Party Transaction Policy" and "Conflict of Interest Policy" in line with IFRS 24 and related CBK instructions. The Group's internal policies with respect to related party transactions are designed to ensure that appropriate procedures and measures are in place to identify and effectively manage all related party transactions and any relevant or material conflicts of interest, that the Board appropriately deals with actual, potential and perceived conflicts of interest, and that all decisions are made in the best interests of the Group.

The Group maintains a register for all related party transactions and a separate register for conflict of interest cases.

The table below sets out the number of shares held by each director as at 1 September 2020:

Director	1 September 2020
Mr. Nasser Musaed Abdulla Al-Sayer	1,697,134
Mr. Ghassan Ahmed Saoud Al-Khalid.....	6,715,018
Mr. Hamad Abdul Aziz Al-Sager.....	46,886,313
Mr. Yacoub Yousef Al-Fulaij	3,770,565
Mr. Hamad Mohammed Abdulrahman Al-Bahar.....	48,889,348
Mr. Muthana Mohammed Ahmed Al-Hamad	11,710,970
Mr. Haitham Sulaiman Al-Khaled.....	172,775
Mr. Emad Mohammed Abdulrahman Al-Bahar	52,500,500
Mr. Talal Jassem Al Kharafi	110,250

Board committees

The Board has established the five Board committees which are described below. The roles and authorities of each Board committee are defined and delegated by the Board and are described in each committee's charter. Each Board committee reviews its charter annually and submits any recommendations for amendments or updates to the Board for approval. The Board committees also submit reports to the Board's Chairman and Board of Directors each quarter regarding their respective duties.

- Board Audit Committee.** The Board audit committee ("**BAC**") is responsible for overseeing the Group's internal control framework and for ensuring the independence of its external auditors. The BAC has responsibility for assessing the effectiveness of the Group's internal control framework on a periodic basis through the evaluations carried out by the Group's internal audit function. The BAC reports the results of its assessment on the adequacy of existing controls and processes to the Board. The committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Head of Internal Audit. The BAC is also responsible for monitoring the performance of the Group's external auditors and co-ordinating with them on subjects related to audit and financial statements. The BAC also reviews and oversees the preparation of the Group's annual and interim financial results.

As at the date of this Prospectus, the members of the BAC are: Mr. Ghassan Ahmed Saoud Al-Khaled (BAC Chairman), Mr. Muthana Mohamed Ahmed Al-Hamad and Mr. Haitham Sulaiman Hamoud Al-Khaled.

A quorum of two is required to convene a meeting of the BAC. Only members of the BAC, the Secretary of the BAC and the Group chief internal auditor are entitled to attend the committee's meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BAC is required to hold a minimum of 4 meetings per year (one each quarter) and provides regular reports to the Board. In 2019, the BAC sat six times.

- Board Credit Committee.** The Board credit committee ("**BCC**") is responsible for reviewing the quality and performance of the Group's credit portfolio, overseeing the effectiveness and administration of credit-related policies and reviewing and approving credit limits above certain thresholds. Membership of the BCC does not overlap with membership in either the BAC or the Board Risk and Compliance Committee.

As at the date of this Prospectus, the members of the BCC are: Mr. Hamad Abdul Aziz Al-Sager (BCC Chairman), Mr. Yacoub Yousef Abdulaziz Al-Fulaij, Mr. Hamad Mohamed Al-Bahar and Mr. Emad Mohammed Al-Bahar.

The quorum for any meeting of the BCC is a minimum of two members, provided they include the Committee Chairman or his delegate. Only members of the Committee (including the Committee Secretary) are entitled to attend Committee meetings. However, members of management or representatives, and other specialists may be invited to attend meetings at the request of the Committee.

The BCC is required to meet on a weekly basis and provides regular reports to the Board. In 2019, the BCC sat 31 times.

- **Board Risk and Compliance Committee.** The Board risk and compliance committee ("**BRCC**") is responsible for ensuring that the Group's enterprise-wide risk management has (1) identified the relevant risks that could affect the ability of the Group to achieve its strategies and preserve its assets, (2) established an enterprise risk management infrastructure—the people, processes and technology—to identify, measure, monitor and report on the risks the Group faces, and (3) established a strong and sustainable compliance culture and compliance management system that seeks to ensure the Group's compliance with applicable laws, rules and regulations governing its businesses.

The Committee shall also monitor the performance of the Group Chief Risk Officer ("**Group CRO**") and Group Chief Compliance and Governance Officer, and assist management in its efforts to ensure a culture of people at all levels in the Group recognizing and managing risk and help to set the tone for a strong risk management and compliance culture within the Group.

As at the date of this Prospectus, the members of the BRCC are: Mr. Ghasan Ahmed Saoud Al-Khaled (BRCC Chairman), Mr. Muthana Mohamed Ahmed Al-Hamad, Mr. Haitham Sulaiman Hamoud Al-Khaled and Mr. Talal Jassem Mohammed AlKharafi.

A quorum of two is required to convene a meeting of the BRCC, the Secretary of the BRCC, the Group CRO and the Group Chief Compliance and Governance Officer are entitled to attend the committee's meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BRCC is required to hold a minimum of 4 meetings per year and provides regular reports to the Board. In 2019, the BRCC sat four times.

- **Board Corporate Governance Committee.** The BCGC supervises the Group's Corporate Governance Office and supports the Board in reviewing the Group's corporate governance principles and practices at regular intervals. The Corporate Governance Office is a centralised and independent function at Group level that is responsible for ensuring effective implementation of the Group's corporate governance framework.

The BCGC is responsible for monitoring the robustness of the governance policies and procedures that the Group has developed. The BCGC is also responsible for the effective implementation of the Bank's disclosure framework, which includes policies, procedures, templates, a disclosure register and a disclosure monitoring dashboard. The committee supervises the monitoring and reporting of conflicts of interest and related party transactions.

As at the date of this Prospectus, the members of the BCGC are: Mr. Nasser Musaed Abdullah Al-Sayer (BCGC Chairman and Chairman of the Board), Mr. Hamad Abdul Aziz Al Hamad Al-Sager, Mr. Yacoub Yousef Abdulaziz Al-Fulajj, Mr. Muthana Mohamed Ahmed Al-Hamad and Mr. Haitham Sulaiman Hamoud Al-Khaled.

A quorum of three members of the committee is required to convene a meeting. Only members of the committee and the Secretary of the committee are entitled to attend the committee meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

The BCGC is required to hold a minimum of two meetings per year and to provide regular reports to the Board. In 2019, the BCGC sat two times.

- **Board Nomination and Remuneration Committee.** The BNRC is responsible for overseeing the Group's succession planning processes, the review of the Group's remuneration framework and suggesting recommendations with respect to executive management remuneration. In addition, the BNRC is responsible for nominating potential Board members, on-boarding and training of new Board members and training and raising the awareness of the Board. The committee also initiates and oversees the evaluation process of the Board and the Board committees. The committee is also supported by the Group's Corporate Governance Office.

The Group's Board level succession planning is managed by the BNRC, which has responsibility for determining the composition of the Board in line with CBK guidelines. For the purposes of

Board- level succession planning, the Group's general assembly has approved the nomination of 'first reserve' and 'second reserve' future Board members, who were initially identified by the BNRC. When a Board vacancy appears, the BNRC will recommend a nominee from the group of 'first reserve' or, if required, 'second reserve' future Board members to fill the vacant post.

As at the date of this Prospectus, the members of the BNRC are: Mr. Hamad Mohammed Al-Bahar (Chairman), Mr. Muthana Mohamed Al-Hamad, Mr. Emad Mohammed Al-Bahar and Mr. Talal Jassem Al Kharafi.

The quorum for BNRC meetings is three members. Only members of the committee and the Secretary of the BNRC are entitled to attend the committee meetings, although members of management and other specialists may be invited to attend meetings upon request of the committee.

The BNRC is required to hold a minimum of 2 meetings per year and to provide regular reports to the Board. In 2019, the BNRC sat three times.

EXECUTIVE MANAGEMENT

The Bank has a long-serving executive management team which is responsible for day-to-day supervision and control of the Group's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions, and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Group. All significant policies are reviewed and approved by the Board.

Members of executive management

Detailed below is brief biographical information about each member of the Group's executive management team as at the date of this Prospectus.

Mr. Isam J. Al-Sager – Group Chief Executive Officer

Mr. Al-Sager joined the Bank in 1978 and was appointed as GCEO in March 2014. He had previously served as Deputy Group Chief Executive Officer since 2010.

Mr. Al-Sager is chairman of the board of NBK (International) PLC and serves on the board of directors of Watani Wealth Management (Kingdom of Saudi Arabia); NBK Properties (Jersey) Limited; NBK Trustees (Jersey) Limited and NIG Asian Investment Co.

Mr. Al-Sager holds a Bachelor of Science degree in Business Administration from California State Polytechnic University, United States.

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

Ms. Al-Bahar joined the Bank in 1977, has been Deputy Group Chief Executive Officer since March 2014 and was previously Chief Executive Officer of the Bank's operations in Kuwait from 2010 onwards.

Ms. Al-Bahar is the Chair of National Bank of Kuwait – Egypt, National Bank of Kuwait – France, National Bank of Kuwait (Lebanon) and NBK Capital and serves on the boards of directors of NBK (International) PLC and NBK Global Asset Management Limited and The Turkish Bank, Turkey. She has been a member of Kuwait's Supreme Council for Planning since August 2017. She has extensive experience in privatisation, project finance, advisory services, bond issues, build/operate/transfer financing, initial public offerings, global deposit receipt programmes and private placements.

Ms. Al-Bahar holds a Bachelor of Science degree in International Marketing from Kuwait University and has attended specialised management and executive programmes at Harvard Business School, Stanford University and Duke University.

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

Mr. Al-Fulaij joined the Bank in 1985 and was appointed as Chief Executive Officer – Kuwait in January 2015. He was previously the Chief Executive Officer of NBK Capital from 2008 to 2014.

Mr. Al-Fulaij is a member of the Board of Watani Financial Brokerage Company K.S.C.C. and serves on the boards of NBK Capital and National Bank of Kuwait – France.

Prior to joining NBK Capital, Mr. Al-Fulaij held several key positions at the Bank and his last position was Group General Manager of Treasury and Investment Services.

Mr. Al-Fulaij is a graduate of the University of Miami where he received his Bachelor's degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University.

Mr. Sulaiman Barrak Al-Marzouq – Deputy Chief Executive Officer - Kuwait

Mr. Al-Marzouq joined the Bank in 2002 and is now the Deputy Chief Executive Officer – Kuwait.

Mr. Al-Marzouq moved to the CBK from 2012 to 2015, where he headed the Department of Foreign Operations, before moving back to the Bank as Group Treasurer. Mr. Al-Marzouq has extensive experience in investment and Wealth Management, in addition to his experience in Treasury and Banking Operations. He is a board member of NBK Capital, Hayat Investment Co. and has served as a board member for several banks and other companies in Kuwait.

Mr. Al-Marzouq holds a Bachelor's degree in Economics from Portland State University, United States.

Mr. Parkson Cheong – Group Chief Risk Officer

Mr. Cheong joined the Bank in 1993 and has been the Group Chief Risk Officer since 2008. He is the chairman or a member of several management-level supervisory committees at the Bank.

Mr. Cheong is experienced in commercial banking, syndicated lending, investment banking and corporate finance.

Mr. Cheong holds a Bachelor of Science degree in Economics from the University of Wales, United Kingdom, and a Master's degree in Business Administration in Finance from the Wharton School, University of Pennsylvania, United States.

Mr. Walid El Seyoufi – Group Chief Compliance and Governance Officer

Mr. Walid Gamal El Din El Seyoufi joined the Bank in 1998 and has been the Group Chief Compliance and Governance Officer since 2019. Former appointments at the Bank include Deputy General Manager and Group Compliance Officer. He is a Board member of National Bank of Kuwait -Egypt and a member in several management-level committees.

Mr. El Seyoufi has more than 25 years of strong and sound experience in the fields of compliance, corporate governance, disclosure and transparency, protecting shareholders' rights, anti-financial crimes (anti-money laundering and combating financing of terrorism, anti-fraud and anti-bribes and corruption), risk management, accounting and auditing.

Mr. El Seyoufi holds a Bachelor's degree in Accounting from Helwan University, Egypt, a Master's degree of science in Risk Management from Glasgow Caledonian University, United Kingdom, a Master's in Business Administration from the American University in Beirut, and an International High Diploma in Enterprise Risk Management and Fellowship from the Institute of Risk Management, United Kingdom. He has also participated in number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University, United States.

Mr. Sujit Ronghe - Acting Group Chief Financial Officer

Mr. Ronghe joined the Bank in 2002 and has been the Group Financial Controller since 2012. He has been appointed as the Acting Group Chief Financial Officer from 1 November 2020, following the resignation of the previous Group Chief Financial Officer, Mr. Jim Murphy, for personal reasons.

Prior to joining the Bank, Mr. Ronghe worked as a Senior Auditor at a big four accounting firm in Kuwait. He has extensive experience in banking and finance.

Mr. Ronghe is a member of the Institute of Chartered Accountants of India and a graduate of the Institute of Cost Accountants of India. He also holds a Bachelor of Commerce degree from the University of Pune, India.

Mr. Emad Al-Ablani – General Manager – Group Human Resources

Mr. Al-Ablani joined the Bank in March 2003 and was appointed as General Manager - Group Human Resources in 2014. He is also member of various management committees.

His former appointments at the bank include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has more than 24 years' experience in Human Resources.

Mr. Al-Ablani holds an Executive Master's degree in Business Administration (EMBA) from the American University of Beirut (Lebanon) and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

Mr. Pradeep Handa – General Manager – Foreign Corporate, Oil & Trade Finance Group

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

Mr. Handa's former appointments at the Bank include: Assistant General Manager, Executive Manager and Senior Manager in the Corporate Banking Group of Kuwait. He has more than 30 years' experience in handling foreign corporate banking and oil and trade finance matters.

Mr. Handa holds a Master's degree from the University of Delhi, India.

Mr. Mohammed Al Othman – General Manager – Consumer Banking Group

Mr. Mohammed Al Othman joined the Bank in 2006 and has been Head of Consumer Banking Group since April 2018. He is also a member of various management committees.

Mr. Al Othman has been the Chairman of the Shared Electronic Banking Services Company (K-Net) since 2015 and a member since 2014. He has extensive expertise in retail banking, personal banking payment services and banking products.

Mr. Al Othman holds a Bachelor's degree in Philosophy from Kuwait University and has attended several training programmes at Harvard Business School.

Mr. Ahmed Bourisly – General Manager – Corporate Banking Group

Mr. Bourisly joined the Bank in 1998 and has been Head of Domestic Corporate Banking Group since June 2019.

Mr. Bourisly served on the board of NBK Capital from April 2012 until January 2015. He serves on the Board of Boubyan Takaful. He is also a member of various Management and Credit Committees.

Mr. Bourisly has extensive experience in many areas of Credit and Corporate Banking Management.

Mr. Bourisly holds a Bachelor's degree in Business Administration with a concentration in Marketing from University of the Pacific, California, United States. He attended numerous training courses and seminars at Harvard University and INSEAD.

Mr. Dimitrios Kokosioulis – Deputy CEO – IT & Operations Group

Mr. Kokosioulis joined the Bank in 2013 as the General Manager, Operations Group. He is also a member of various management committees.

Mr. Kokosioulis' former appointments include: Chief Operating Officer, Deputy Chief Operating Officer, Head of International Consumer Finance Operations, Vice President and as the Head of Retail and

Cards Operations at various local and international banks in south-eastern and central-eastern Europe. He has experience in operations management, financial planning and analysis, project management, greenfield operations set up, merger and acquisitions activities and restructuring.

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

Mr. Malek J. Khalife – Deputy CEO – Head of Global Private Banking

Mr. Khalife joined the Bank in 2005 and has been the General Manager, Private Banking Group – Kuwait at the Bank since 2008 and is the Head of Global Private Banking for the Group since June 2018. He is a Board Member of National Bank of Kuwait – Lebanon, National Bank of Kuwait – France and Watani Wealth Management – Saudi Arabia. He is also a member of various management committees.

Mr. Khalife's last role prior to joining the Bank was as Director of Private Banking, Representative Office at an American bank in Lebanon. He has over 34 years' experience in private banking and financial markets in the Middle East and the GCC area.

Mr. Khalife holds a Master's degree in Economic Sciences from Saint Joseph University, Lebanon.

Mr. Mohammed Al Khonaini – General Manager of Head of Administration Services

Mr. Mohammed Al Khonaini joined the Bank in 1979 and has been General Manager Administration Group since 2007.

Mr. Al Khonaini has assumed many roles in different departments, mostly in consumer banking. He has extensive experience in consumer banking and administration.

Mr. Al Khonaini has a Bachelor's degree in Political Sciences from Kuwait University. He has participated in a number of Executive Education Programmes at Harvard Business School and many training courses.

Mr. Mohammed Al Kharafi – General Manager - Head of Operations

Mr. Mohammed Al Kharafi joined the Bank from 2001 until 2008 where he progressed to the position of Branch Manager. He re-joined the Bank again in 2010 where he assumed many leadership roles and he is currently the General Manager of Operations. He is a board member of the Credit Information Network Company (Ci-Net).

He has extensive experience in retail banking and operations.

Mr. Mohammed Al Kharafi has a Bachelor's degree in Business Administration from the Arab Open University. He has participated in a number of Executive Education Programmes at Harvard Business School, Chicago Booth School of Business and American University of Beirut.

Dr. Saade Chami – Group Chief Economist

Dr. Saade Chami joined the Bank in 2018. He is currently Group Chief Economist and a member of various management committees. He has extensive expertise in economic analysis and capital markets.

Prior to joining the Bank, Dr. Chami was the Secretary General of the Capital Markets Authority in Lebanon for several years. He also served with the International Monetary Fund for over 20 years, and served as the adviser for both the Prime Minister's Office and the Ministry of Finance in Beirut, Lebanon.

Dr. Chami holds a Bachelor's and Master degrees in Economics from the University of Ottawa, Canada, as well as a Ph.D from McMaster University, Canada.

Mr. Ezzat Hallal – Chief Engineer

Engineer Ezzat Hallal joined the Bank in 2003. He is the Head of the Engineering Department and works in developing and expanding the Bank's network of branches local and overseas. He is also the engineer in charge of the Bank's new headquarters project.

Prior to joining the Bank, Eng. Hallal had several leading positions in Kuwaiti and US engineering and construction companies. He has extensive experience in construction and project management consultancy.

Eng. Hallal holds a Bachelor and Master degrees in Construction Management from the University of Oklahoma, in addition to a Master in Civil Engineering from the University of Villanova. He has attended executive management and leadership programmes at Harvard Business School, Wharton School and Dale Carnegie.

Mr. Nikolas Sfikas – General Manager – Chief Information Officer

Mr. Sfikas joined the Bank in 2015. He is currently the Head of IT, Information Technology Group.

Prior to joining the Bank, Mr. Sfikas was the senior manager of ATMs and cards at a major bank in Greece. Mr. Sfikas has wide experience of more than 20 years in the field of Information Technology in the banking sector.

Mr. Sfikas holds a Master degree in Business Administration from University of Macedonia - Greece and a Master degree in Engineering (Electronic and Computer Engineering) from Aristotle University of Thessaloniki.

Dr. Galal Wafaa – General Counsel – Head of Legal Affairs Group

Dr. Galal joined the Bank in 2015. He is currently the General Counsel and head of the Legal Affairs Group of the Bank.

Prior to joining the Bank, Dr. Galal was the Senior Legal Counsel at the Capital Markets Authority in the State of Kuwait and Legal Counsel and Head of the Anti-Money Laundering Unit at a bank in Kuwait. Dr. Galal is also a Professor of Commercial and Maritime law in Alexandria University.

Dr. Galal has wide experience in advising corporations and financial institutions, in addition to being a member of a number of legal committees in the State of Kuwait.

Dr. Galal holds a Bachelor of Laws degree from Alexandria University, a Master's degree in Commercial Law from New York University and a Doctorate degree in Juridical Science from Tulane University.

Mr. Jad Zakhour – General Manager – Head of Treasury Group

Mr. Zakhour joined the Bank in 2006 and has been Head of Treasury Group since January 2020. He was previously the Deputy Group Treasurer since August 2014. He is also a member of various management committees.

Mr. Zakhour has extensive experience in treasury, investment and wealth management.

Mr. Zakhour holds a Bachelor's degree in Civil Engineering from Homs University and a Master's Degree in Business Administration in Finance from American University of Beirut. He is a Certified Financial Risk Manager (FRM). Mr Zakhour has participated in a number of Executive Programs at Harvard Business School and INSEAD.

The business address of each member of the executive management is National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001 Kuwait, Jaber Al-Mubarak and Al-Shuhada Street, NBK Tower, Sharq, State of Kuwait.

No member of the Bank's executive management has any actual or potential conflict of interest between his or her duties to the Bank and his or her private interests and/or other duties.

The Group has established a formal executive management succession plan which is approved by the BNRC on an annual basis. Under the current executive management succession plan, the nominated successor to the GCEO is the Deputy Group Chief Executive Officer; the successor to the Deputy Group Chief Executive Officer is the Chief Executive Officer – Kuwait; and the successor to the Chief Executive Officer – Kuwait is the Deputy Chief Executive Officer - Kuwait.

Executive management committees

The Group's executive management committees include the credit committees described under "*Risk Management—Credit risk—Corporate credit risk management*", the EC and the ALEC.

Group Executive Committee

The EC is the highest management level authority which is responsible for managing and overseeing matters related to all aspects of the Group's business including corporate organisation, finance and operations. All management level committees report to, and are subject to the oversight of, the EC which has authority to determine, for example, the frequency with which other management committees are required to meet.

When taking decisions on behalf of the Group, the EC is required to give consideration to the prevailing risk environment, in addition to adhering to the Group's established corporate governance framework and the Group's overall strategic goals as mandated by the Board.

The EC's key responsibilities and duties include the following:

- preparing and reviewing strategic objectives, financial plans and key policies and procedures of the Group, to be submitted for approval by the Board;
- monitoring and overseeing the financial and operational performance of the Group;
- approving key procedures for individual business units and recommending policies for Board consideration and approval;
- setting annual business plans, financial forecasts, budgets of each subsidiary, capital expenditures, performance targets, and other initiatives to attain the Group's targets, and submitting for Board approval; approving projects with capital expenditure in excess of executive managerial limits;
- reviewing the respective authority for the various operations as specified in the list of approval authority and submitting for Board approval;
- reviewing "high" residual risks identified through risk assessments or internal audit reports that have been accepted by the relevant business unit and/or Group Head and to determine whether to accept those risks or mitigate them in accordance with the Group's risk appetite;
- establishing and dissolving any wholly-owned subsidiary, branch of the subsidiary or associated company or representative office of the Group, and obtaining Board approvals if required; and
- monitoring employee performance at all levels with regard to risk management, including the effectiveness of the internal control system and operations in compliance with related laws, rules and regulations.

As at the date of this Prospectus, the EC has 14 members, with the GCEO serving as chairman of the committee.

A quorum of at least one half of the committee's members is required to convene a meeting, at least one of whom must be the EC chairman or vice-chairman.

The EC is required to meet at least quarterly and as often as it deems appropriate to carry out its responsibilities. In 2019, the EC sat 15 times.

Group Asset Liability Executive Committee

The ALEC is an executive management committee that determines matters relating to liquidity risk, interest rate risk, balance sheet management and trading activities. The role of the ALEC is to ensure policies and internal guidelines approved by the EC other Group management committees are adhered to.

The ALEC seeks to manage the Group's assets and liabilities in order to enhance profitability and protect the Group from any adverse consequences that may result from extreme changes in market conditions and other financial risks.

In carrying out these key functions, the ALEC:

- reviews and recommends changes to the structure of the Group's balance sheet and management of the Group's assets and liabilities generally;
- oversees the Group's liquidity policies including the setting and monitoring of liquidity margins, liquidity ratios and the management of liquidity risk;
- oversees and manages the Group's exposures to different asset classes, including monitoring the Group's deposit concentration levels;
- reviews management strategies with respect to balance sheet structure including asset allocation strategies; changing liability structure and mix; balance sheet growth, structure and maturity; and hedging, which are consistent with the Group's strategic goals and in compliance with regulatory requirements;
- monitors and reviews the Group's capital position and funding requirements;
- determines current and projected liquidity requirements and monitors the sources and uses of liquidity, including contingency plans for unexpected or volatile market conditions;
- reviewing and revising, when necessary, short and medium term projections and other external regulatory and economic factors, which affect the liquidity of the Group;
- identifies, analyses and recommends changes in policies, guidelines and procedures relating to assets and liabilities consistent with the Group's mission and financial goals;
- approves the approach and strategies utilised in the management of treasury products;
- reviews the Group's hedging strategy periodically to ascertain it is in accordance with the overall objectives of the Group and that it considers the market conditions and currency market trends; and
- monitors and reviews the Group's compliance with applicable regulatory ratios and Board policy relating to the management of market risk and interest rate risk.

As at the date of this Prospectus, the ALEC has 14 members, with the GCEO serving as chairman of the committee.

A quorum of five members (including the Chairperson or assigned deputies) is required to convene a meeting.

The ALEC is required to meet at least once a month (as required by the EC) or as otherwise required. In 2019, the ALEC sat 22 times.

INTERNAL CONTROLS

The Group's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting principles. The Group's internal controls include policies and procedures that: (i) are designed to ensure the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Group's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles, and that receipts and expenditures of the Group are being made only in accordance with authorisations of management and directors of the Group; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of the Group's assets.

The Board has assigned the BAC with responsibility for the oversight of the Group's internal control framework along with the selection and rotation of external auditors in compliance with regulatory requirements.

An annual review of the Group's internal control functions is conducted by an external audit firm other than the auditors of the Group in accordance with CBK requirements. This review examines the Group's accounting and other records, and evaluates the internal control systems in place in the following, non-exhaustive areas: corporate governance, consumer banking, corporate and private banking, treasury, financial control, information technology, risk management, human resources and administration, internal audit, legal affairs, customer complaints, financial securities, confidentiality of customer information, anti-fraud and embezzlement systems and anti-money laundering.

The external review reports for each of the years ended 31 December 2019, 2018 and 2017 have not highlighted any significant issues with the Group's internal control functions.

Notwithstanding the above, internal controls are subject to inherent limitations. Please see "*Risk Factors—Factors that may Affect the Bank's Ability to Fulfil its Obligations in Respect of the Notes, the Loan and/or the Subordinated Guarantee—Operational risks—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks, which could result in material losses*".

COMPENSATION

In the year ended 31 December 2019, the total compensation paid to the executive management amounted to KD 13.5 million, compared to KD 12.3 million in the year ended 31 December 2018 and KD 11.3 million in the year ended 31 December 2017.

Board members do not receive any compensation in the form of fees, salaries or bonuses for their services rendered to the Group.

OVERVIEW OF KUWAIT

Unless indicated otherwise, information in this section has been derived from Kuwaiti government publications.

OVERVIEW

Kuwait is located in the north-east of the Arabian Peninsula in Western Asia. It is bordered by Saudi Arabia to the south at Khafji and Iraq to the north at Basra. To the east, Kuwait has approximately 499 kilometres of coastline on the Arabian Gulf.

Kuwait covers an area of approximately 17,818 square kilometres, which is divided into six Governorates (Al-Ahmadi, Al-'Asimah (the capital), Al-Farwaniyah, Al-Jahra', Hawalli and Mubarak Al-Kabir). Each Governorate is headed by a governor, a representative of the Emir, who is supported by a council. Governors are usually members of the ruling family or close allies. Membership of the Governorate councils is by appointment. Each Governorate is divided into districts or areas and each district is headed by a mayor or chief (Mukhtar) who reports to the Ministry of Interior. The capital and administrative centre of Kuwait is Kuwait City, where the Government and most of the other state institutions are located. The official language in Kuwait is Arabic, but the use of English is widespread, especially in business transactions.

Kuwait's economy benefits from some of the largest oil reserves in the world as well as very low relative oil production costs. According to OPEC's 2020 Annual Statistical Bulletin (the "**OPEC 2020 Bulletin**"), Kuwait has the fifth largest oil reserves in the world estimated at around 101.5 billion barrels (accounting for 6.5 per cent. of the world's total oil reserves). According to the OPEC 2020 Bulletin, Kuwait was the world's eighth largest oil producer and eighth largest exporter for the year ended 31 December 2019, accounting for 3.6 per cent. of the world's total oil production and 4.4 per cent. of the world's total oil exports for the year ended 31 December 2019. According to the same source, Kuwait's production levels were 2.7 million bpd on average for the year ended 31 December 2019. As a founding member of OPEC, Kuwait's oil production is subject to any agreements that are reached to limit oil production and in April 2020 Kuwait participated in the 'OPEC plus' agreement, and the subsequent extension in July 2020, to cut global oil production in response to the reduced demand for oil following the outbreak of COVID-19.

POPULATION

The latest official Kuwait census for which data has been published was conducted in April 2011. Accordingly, all population figures for subsequent years are estimates based on historic data.

The most recent estimate of the population in Kuwait was published by the Public Authority for Civil Information as at 31 December 2019. The population was estimated to be approximately 4.8 million, of which approximately 1.4 million were Kuwaiti nationals (30.0 per cent.) and approximately 3.3 million were non-Kuwaiti nationals (70.0 per cent.).

ECONOMIC OVERVIEW

Since oil was discovered in Kuwait in 1937, Kuwait's economy has grown significantly, principally due to the revenues generated from the export of crude oil and related products. Kuwait's major industries include petroleum, petrochemicals, cement, shipbuilding and repair, water desalination, food processing and construction.

According to provisional figures prepared by Kuwait's Central Statistical Bureau, Kuwait's real GDP increased by 0.6 per cent. in 2015 and 2.9 per cent. in 2016, declined by 4.7 per cent. in 2017 before increasing by 1.2 per cent. in 2018 and 0.4 per cent. in 2019 to KD 39.4 billion. According to preliminary IMF data, Kuwait's real GDP is projected to decline by 8.1 per cent. in 2020.

According to data from Kuwait's Ministry of Finance, oil revenues comprised 89.3 per cent. of total Government revenues for the fiscal year ended 31 March 2020. According to Kuwait's Central Statistical Bureau, oil and oil products represented 91.0 per cent. of total exports for the year ended 31 December 2019. Kuwait's economy has generally benefitted from healthy fiscal and current account surpluses, although lower oil prices since mid-2014 meant that Kuwait realised a net budget deficit (after transfers to the Future Generations Fund ("**FGF**")) for the fiscal years ended 31 March 2015, 2016, 2017,

2018, 2019 and 2020. The monthly average OPEC Reference Basket price per barrel in June 2014 was U.S.\$107.90. The annual average OPEC Reference Basket prices in each of 2014, 2015, 2016, 2017, 2018 and 2019 were U.S.\$96.29, U.S.\$49.49, U.S.\$40.76, U.S.\$52.43, U.S.\$69.78 and U.S.\$67.96, respectively. In 2020, the OPEC Reference Basket price per barrel fell significantly, reaching lows of U.S.\$12.22 in April 2020, before beginning to recover in May 2020. As at 30 September 2020, the OPEC Reference Basket price per barrel was U.S.\$40.65.

OPEC Reference Basket price movements are shown solely to illustrate the historic volatility in international crude oil prices and no implication is intended that the Group's revenue from crude oil production is directly linked to the price of the OPEC Reference Basket. The price per barrel of Kuwait Export Crude Oil (which is produced by Kuwait and constitutes part of the OPEC Reference Basket) has also moved in line with these trends.

While the oil industry has historically dominated and continues to be the largest part of, Kuwait's economy (with oil (excluding refining) accounting for approximately 53.0 per cent. of real GDP for the year ended 31 December 2019 according to provisional figures from Kuwait's Central Statistical Bureau), for the past several years, Kuwait has been concentrating on the diversification of its economy by encouraging private sector participation and promoting foreign investment in non-oil sectors as articulated in the "New Kuwait 2035" plan. These efforts have gained special importance in light of the onset in mid-2014 of the current low oil price environment. Based on provisional figures from Kuwait's Central Statistical Bureau, the non-oil sector of the economy (including oil refining) contributed approximately 47.0 per cent. of Kuwait's real GDP in the year ended 31 December 2019 and grew by 3.0 per cent. in real terms in the same time period from KD 18 billion to KD 18.5 billion.

Kuwait's public finances benefit from one of the world's largest sovereign wealth funds. Based on third party public sources, as at 31 December 2019, the KIA was ranked as the world's fourth largest sovereign wealth fund with approximately U.S.\$533.6 billion in assets according to the Sovereign Wealth Fund Institute. The KIA is prohibited by law from publicly discussing the exact size of its holdings. The KIA is responsible for the management of Kuwait's General Reserve Fund ("GRF") and its FGF, as well as other funds entrusted to it by the Minister of Finance for and on behalf of Kuwait. On an annual basis and by law, a minimum of 10 per cent. of all Government revenues were transferred to the FGF, though in 2020 this rule was modified such that transfers are suspended when the budget is in deficit. The GRF is available to fund budget deficits in Kuwait and Kuwait has never drawn down on the funds in the FGF since the FGF's inception in 1976, other than for liberation and reconstruction costs related to the Iraqi invasion.

INFLATION

The following table sets forth the consumer price index ("CPI") and annual inflation rate in Kuwait for the years ended 31 December 2019, 2018 and 2017, respectively.

	Average for the year ended 31 December		
	2019	2018	2017
Consumer Price Index (base year 2013=100)	114.2	113.0	112.3
Inflation (percentage change, year on year).....	1.1	0.6	1.5

Source: Central Statistical Bureau

GOVERNMENT, POLITICAL AND LEGAL SYSTEM

Kuwait is a constitutional monarchy with a parliamentary system of government. Under its Constitution, which entered into force in 1963, the head of the State is the Emir, who is chosen from among the members of the ruling Al-Sabah family and confirmed by the National Assembly. The current Emir is His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, who acceded to the throne in September 2020. The Emir has, among other powers, the power to appoint the Prime Minister, dissolve the National Assembly, suspend certain parts of the Constitution and refer bills to the National Assembly for consideration. The Emir has the right to propose legislation as well as the right to promulgate and sanction laws. His Highness Sheikh Meshal Al Ahmad Al Sabah is the current Crown Prince. Historically, the Emir has been selected by family consensus although the Emir Succession Law provides for National Assembly input under certain circumstances.

Kuwait was the first member of the GCC to establish a directly elected National Assembly in 1963. The National Assembly comprises 50 directly elected members who serve four-year terms. The National Assembly has the power to question and dismiss ministers through a vote of no-confidence, including the Prime Minister, and to propose, enact or block enactment of legislation introduced by the Government. The current National Assembly was elected in November 2016 with a heavy concentration of opposition members which could potentially have a disruptive effect on future deliberations regarding various reforms being put into place due to the low oil price environment, such as the National Program for Fiscal and Economic Sustainability. The next National Assembly election is scheduled for December 2020, although the Emir retains the power to dissolve the National Assembly before that time if the current arrangement ultimately proves to be ineffective.

The Council of Ministers forms the executive level of government and advises and assists the Prime Minister, who is appointed by the Emir. The current Prime Minister is His Highness Sheikh Sabah Al- Khalid Al-Sabah who was appointed in 2019. The Council of Ministers is composed of all Ministers who comprise 22 ministerial functions.

Kuwait's legal system is primarily modelled on the French civil law system, Egyptian civil code and elements of Islamic Shari'a law. Although Kuwait is a democratic nation where sovereignty rests with the people, its system is based on the principles of justice, liberty and equality and governed by a Constitution of delegated powers to the legislative, the executive and the judicial authorities. In descending order of importance, the Constitution is followed by laws and their implementing instruments such as regulations and ministerial resolutions.

DEVELOPMENT STRATEGY OF KUWAIT

In 2010, the Government announced its new overall strategy for Kuwait's future development through the year 2035 known as "**Kuwait Vision 2035**," which is based on three main themes:

- Recovering the pioneering regional role of Kuwait and transforming it into a financial and trade centre, attractive to investors, where the private sector plays the lead role in economic activity creating competition and promoting efficiency; with supportive national governmental institutions providing the adequate infrastructure, appropriate legislative framework and an inspiring business environment;
- Providing a climate for balanced human development, safeguarding social values and national identity and preserving the community's values; and
- Strengthening the democratic system, respect for the Constitution, and the promotion of justice, political participation and freedom.

The new Kuwait plan

On 30 January 2017, the Government updated its long-term development strategy under the slogan "**New Kuwait 2035**". The new Kuwait plan is based on the following seven thematic pillars and objectives:

- *Public Administration:* Reform administrative and bureaucratic practices to reinforce transparency, accountability and efficiency in the Government.
- *Economy:* Develop a prosperous and diversified economy to reduce Kuwait's dependency on oil revenues.
- *Infrastructure:* Develop and modernise the national infrastructure to improve the quality of life for Kuwait's citizens.
- *Living Environment:* Ensure the availability of accommodation through environmentally sound resources and tactics.
- *Healthcare:* Improve service quality and develop national capabilities in the public healthcare system.
- *Human Capital:* Reform the education system to better prepare Kuwait's youth to become competitive, productive and competent members of the workforce.

- *Global Position:* Enhance Kuwait's regional and global presence in spheres such as diplomacy, trade, culture and philanthropy.

FOREIGN RELATIONS AND INTERNATIONAL ORGANISATIONS

Kuwait, together with Bahrain, Oman, Qatar, Saudi Arabia and the UAE, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the WTO, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organisation (UNESCO).

BANKING INDUSTRY AND REGULATION IN KUWAIT

CENTRAL BANK OF KUWAIT

Kuwait's monetary, banking and financial system is regulated and supervised by the CBK, which was formed by Law No. 32 of 1968 (as amended) (the "**CBK Law**"). The CBK commenced operations on 1 April 1969. According to Article 15 of the CBK Law, its objectives are to:

- issue currency on behalf of Kuwait;
- secure the stability of the Kuwaiti dinar and its free convertibility into other currencies;
- direct credit policy in order to contribute to Kuwait's social and economic progress and the growth of national income;
- supervise the banking system in Kuwait;
- serve as the Government's bank; and
- render financial advice to the Government.

The CBK is largely independent of Kuwait's executive and legislative branches and is managed by a Board of Directors, consisting of the Governor of the CBK, who also acts as the Chairman, the Deputy Governor of the CBK, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). The four additional Board members are drawn from expert practitioners in the fields of economics, finance or banking and are appointed by an Emiri Decree for a three-year renewable term. The Governor and the Deputy Governor of the CBK are each appointed by an Emiri Decree for a five-year renewable term, pursuant to a recommendation from the Minister of Finance (which is conditional on them having experience in the banking sector).

The CBK's total assets as at 30 September 2020 were KD 13.9 billion, an increase of 24.0 per cent. as compared to KD 11.3 billion as at 30 September 2019.

BANK REGULATION AND SUPERVISION

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait whilst the Kuwait Capital Markets Authority (the "**CMA**") exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on Boursa Kuwait (previously known as the Kuwait Stock Exchange) or engage in securities activities as discussed further below.

Off-site and On-site supervision department

The CBK's off-site supervision department receives periodic financial reports from institutions under its supervision, issues supervisory regulations, resolutions and instructions to such institutions, examines ongoing banking and financial trends and monitors their impact on the soundness and stability of these institutions. The department also conducts studies to assess applications to establish new banking and financial institutions or for new branches, articles of association, banking services and by-laws; and organises and maintains registers of the institutions subject to CBK supervision. The off-site supervision department also prepares CBK recommendations on issues concerning banking and supervisory conditions, and develops a dialogue with worldwide supervisory bodies and concerned international institutions, to stay informed and updated on the latest global trends and developments in the area of supervision of banking and financial activities.

The CBK also has an on-site supervision department that is responsible for monitoring the activities of institutions under its supervision to ensure their compliance with the provisions of relevant laws and supervisory regulations and instructions, including through periodic inspections. In addition, the on-site supervision department is responsible for the combat of money laundering and financing of terrorism (through an Anti-Money Laundering section within the on-site supervision department), following up

on complaints and appeals submitted to CBK by those dealing with CBK-regulated entities, and proposing related supervisory regulations and instructions.

Financial Stability Office

The CBK has also established a Financial Stability Office (the "**FSO**"), which aims to contribute to a sound financial system in Kuwait capable of withstanding financial and economic shocks by identifying key vulnerabilities in the financial system and suggesting appropriate corrective measures. The FSO annually publishes its flagship Financial Stability Report (the "**FSR**"), covering key developments in the banking sector (making an assessment of financial intermediation, analysing key risks in the banking sector and examining the trends in banks' profitability, solvency and resilience against major shocks), domestic markets (money, foreign exchange, equity and real estate markets) and the payment and settlement systems. The aim of publishing the annual FSR is to identify risks to the stability of the financial system and to promote transparency and encourage informed public discourse on various developments in the financial system.

The FSO also prepares other analytical reports, for internal use on major developments and key risks in the banking sector and financial markets, making use of appropriate tools and techniques, such as stress testing, in early identification of vulnerabilities in the financial system.

BANKING REGULATION

Liquidity regulations

Prior to April 2020, the CBK required banks to maintain 18 per cent. of their Kuwaiti dinar customer deposits in the form of balances with the CBK and Kuwait Government treasury bonds.

Bank liquidity in Kuwait is monitored using the "Maturity Ladder Approach" under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

The CBK also introduced, in 2014, the liquidity coverage ratio regulations ("**LCR**") and, later in 2015, the net stable funding ratio ("**NSFR**") guidelines, which are aimed at improving banks' capacity to withstand liquidity stress and making their funding structure stable.

The CBK introduced the LCR in a phased manner, setting a benchmark requirement of 70 per cent. in 2016 which increased by 10 per cent. each year and remained at 100 per cent. between January 2019 and April 2020. Banks are required to submit, along with existing liquidity reports, their LCR reports on a daily and monthly basis for monitoring purposes as well as LCRs by major currency.

The minimum required NSFR is calculated as a percentage of available stable funding to required stable funding. The requirement to maintain an NSFR of 100 per cent. became effective in January 2018, although banks were to start reporting their NSFR to the CBK in January 2016.

In April 2020, as part of the measures implemented to support the Kuwaiti economy following the outbreak of COVID-19, the CBK decreased banks' liquidity ratio requirements from 18 per cent. to 15 per cent., their LCR requirements from 100 per cent. to 80 per cent and their NSFR requirements from 100 per cent. to 80 per cent. Additionally, the CBK increased the limit for the maximum negative cumulative gap for liquidity and also increased the limit for the maximum permissible financing from 90 per cent. to 100 per cent. These measures imposed by the CBK remain subject to further review by the CBK at the end of 2020.

Capital adequacy regulations

Over the past few years, the CBK has refined its existing regulations to reflect global best practices. The CBK has already implemented the full set of Basel III regulations, covering capital adequacy, leverage, and liquidity. The CBK has enhanced its capital adequacy regime by setting out higher and better quality capital for Kuwaiti banks to further strengthen their loss absorbing capacity. The CBK has also put up additional capital requirements for systemically important banks, such as the Bank, and introduced the Leverage Ratio (which is defined as the "capital" measure – made up of Tier 1 capital – divided by the "exposure" measure – being the sum of on-balance sheet assets, derivative exposures and off-balance

sheet exposures) as a supplementary measure to ensure that Kuwaiti banks do not become overly leveraged.

The CBK's Instructions relating to Basel III require that the terms and conditions of Tier 1 or Tier 2 instruments issued by a licensed bank in Kuwait must contain a provision that permits such instruments to either be written-off or converted into common equity, as determined by the CBK, should a Trigger Event (as defined below) occur. Pursuant to the Instructions, a "**Trigger Event**" will have occurred if either of the following events occurs:

- the issuing bank is instructed by its regulator to write-off or convert such instruments, on the grounds of non-viability; or
- an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable.

Notwithstanding the definition of Trigger Event set out above, the Conditions only allow for a Write-down (as defined in the Conditions), and not a conversion into ordinary shares, of the Capital Securities to take place following the occurrence of a Trigger Event.

Credit risk regulations

- *Loan/financings to deposit ratio* - Kuwaiti banks are restricted by the CBK from lending amounts in excess of a prescribed percentage of qualifying deposits. With effect from October 2016 to April 2020, the prescribed percentage was 90 per cent., irrespective of the maturity profile of such deposits. As described above, the prescribed percentage was increased to 100 per cent. in April 2020 following the outbreak of the COVID-19 pandemic.
- *Credit facility classifications*: The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant CBK instructions specify the cases when a credit facility must be classified as 'irregular' and include where payment of an instalment is not made, interest is not paid on the maturity date or the debit balance exceeds the drawing limits determined for the customer.
- *Consumer and instalment loans*: Consumer credit facilities are granted with the CBK's regulatory framework, lending limits and in accordance with the Bank's internal credit policy. In November 2018, the CBK amended the regulations on granting personal loans/financing. Taking into consideration changes in macroeconomic conditions and the changes in customer demographics, these amendments increased the ceiling for both consumer loans and Islamic financing. In general, the maximum eligible limit for a consumer loan is 25 times the net monthly salary (or continuous monthly income) of the consumer, or KD 25,000, whichever is lower, with a maximum repayment tenor of five years. An "instalment" loan is a long-term personal loan intended for non-commercial purposes, in particular for renovation or purchase of a private residence. The maximum limit on instalment loans is KD 70,000 (which is in addition to the maximum limit on any "consumer" loan advanced to the same customer). The maximum repayment tenor for an instalment loan is 15 years. A customer's total monthly repayment liability (consumer and instalment loans) must not exceed 40 per cent. of that customer's net monthly salary (or continuous monthly income).
- *Extension of facilities for non-residents*: Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the loan does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for loans to non-residents.
- *Foreign exchange transactions* - Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

Concentration risk regulations

- *Investment limits*: The total ratio of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under the

CBK's instructions to the local banks in respect of the Capital Adequacy Ratio and the CBK instruction no. BS/101/1995 (as amended) in respect of the credit concentration limits. Further, the ratio of the investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

- *Maximum limit for credit concentration:* Subject to certain exceptions or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's regulatory capital.
- *Clustering limit – total limit for large concentrations:* The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's regulatory capital), including any exceptions approved by the CBK, may not exceed four times a bank's regulatory capital.

Interest rate cap regulations

The CBK's resolutions issued in respect of interest rate ceilings provide that the maximum limits for interest rates on KD loans to corporates should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and
- 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year.

Interest rates for consumer and instalment loans denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such interest rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Interest rates for loans in currencies other than the Kuwaiti dinar are not regulated by the CBK.

Corporate governance

On 10 September 2019, the CBK issued a revised version of the "Rules and Standards of Corporate Governance" (the "**Corporate Governance Rules**") which apply to all banks in Kuwait and is required to be implemented with effect from 30 June 2020. This new regulation replaces the previous "Rules and Standards of Corporate Governance in Kuwaiti Banks" issued in 2012. The Corporate Governance Rules provide principles that should be applied by Kuwaiti banks in order to ensure proper governance. They comprise nine pillars that cover, amongst other things, board composition, independent board members, risk management governance, compliance governance, cyber security, disclosure and transparency, remuneration policies and systems, and overall protection of shareholder and stakeholder's rights. The Corporate Governance Rules require each bank to adopt a corporate governance manual and establish a corporate governance committee, tasked with devising an overall framework for the adherence to the governance manual.

The Corporate Governance Rules require the existence of independent directors in the composition of a banks' board of directors and the board committees. With effect from 30 June 2020, a bank's board must comprise no less than 11 board members, two of whom must be deemed "independent" but in no circumstance should the independent board members occupy more than half of the board seats. Another two independent board members are to be included to provide a total of four independent board members from the, at least, 11 board members. Following the outbreak of the COVID-19 pandemic, the CBK granted Kuwaiti banks an extension to this requirement until 31 December 2020.

The Corporate Governance Rules provide principles that should be applied by Kuwaiti banks in order to ensure proper governance. They comprise nine pillars that cover, amongst other things, board composition, independent board members, risk management governance, compliance governance, cyber security, disclosure and transparency, remuneration policies and systems and overall protection of shareholder and stakeholder's rights. The Corporate Governance Rules require each bank to adopt a corporate governance manual and establish a corporate governance committee, tasked with devising an overall framework for the adherence to the governance manual.

The Corporate Governance Rules define the role of a bank's board of directors and executive management (including the chief executive officer and other members of senior management), the executive committee (which is to include the chief executive officer), the risk committee, the audit committee, and any other committees that have an active role in the business of the Bank.

The Board adopts and implements internationally recognised corporate governance practices and adheres to the CBK's requirements under the Corporate Governance Rules. See "*Management and Employees–Management–Corporate governance framework*" for further detail.

Third party portfolio management

Instructions apply to portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments.

Other Instructions

The CBK has also issued Instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities; (v) the provision of facilities for trading in shares listed on the Boursa Kuwait; (vi) the protection of customers; (vii) customers' special needs and (viii) anti-money laundering and combating the financing of terrorism.

APPLICATION OF CBK REGULATIONS TO THE BANK

The Bank is incorporated as a public shareholding company in Kuwait. The Bank is licensed by the CBK to conduct banking activities and operates under its supervision. The Bank is also listed on Boursa Kuwait. As a company incorporated in the State of Kuwait under the applicable companies' laws, for the Bank to perform any commercial activities, it must have a valid commercial license issued by the Ministry of Commerce and Industry ("**MOCI**"). The MOCI issued commercial license is renewable every four years. The Bank has a valid commercial license which expires on 13 November 2023. The Bank has no reason to believe that its commercial licence will not be renewed by MOCI.

The CBK is tasked with maintaining the stability of Kuwait's banking system. As an entity subject to the CBK's oversight, the Bank is required to submit various periodic and one-off reports to the CBK. The CBK also conducts inspections of banking and financial institutions (banks, investment companies and money exchange companies) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutive documents. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK routinely and periodically inspects all entities subject to its oversight. The CBK's most recent inspection of the Bank for which a report has been issued was conducted during 2019. The final inspection report was issued by the CBK on 30 January 2020 and contained no material issues. The Bank's 2020 inspection is in progress and the report in relation to it is not expected to be received before December 2020.

Alongside the CBK, the Bank is also regulated by the CMA due to it being a publicly traded company with shares listed on Boursa Kuwait, and conducts some of the "Securities Activities" listed in Module 5 article 1-2 of the CMA Bylaws.

BANKING SYSTEM

The Kuwait banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of the CBK Law. As at 30 September 2020, total local bank assets in the Kuwaiti banking sector amounted to KD 72.5 billion and total credit facilities to Kuwaiti residents advanced by local banks amounted to KD 40.0 billion (compared to KD 71.0 billion and KD 38.4 billion, respectively, as at 31 December 2019) (source: CBK).

The key performance indicators of the conventional Kuwaiti banks as at 31 December 2019 are set out below (source: annual reports and investor publications published on the company website of each bank listed below).

	Cost to income ratio	Return on assets <i>(per cent.)</i>	Return on equity	Earnings per share <i>(fils*)</i>
National Bank of Kuwait S.A.K.P.....	34.0	1.4	12.3	60
Burgan Bank	41.2	-(¹)	10.0	24.1
Gulf Bank	37.6	1.1	10.0	22
Commercial Bank of Kuwait	31.6	1.4	9.7	-
Al-Ahli Bank of Kuwait K.S.C.P	38.9	0.5	3.7	14

* 1000 fils equals one Kuwaiti dinar.

(¹) Figure not publicly available as at the date of this Prospectus.

In addition, as at 30 September 2020, 12 foreign bank branches also operate in Kuwait. These are the Bank of Bahrain and Kuwait, BNP Paribas, HSBC, First Abu Dhabi Bank, Citibank, Qatar National Bank, Doha Bank, Mashreq Bank, Al-Rajhi Bank, Bank Muscat, Union National Bank and Industrial and Commercial Bank of China Limited.

FINANCIAL STABILITY LAW AND DEPOSIT GUARANTEE LAW

In response to the global financial crisis in 2008, the Government took a number of measures, including the passing of Decree No. 2 of 2009 (the "**Financial Stability Law**"). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks. The Financial Stability Law applies only to specific classes of economic ventures which had been entered into as at 31 December 2008.

As a further measure, the Government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the "**Deposit Guarantee Law**"). Under the Deposit Guarantee Law, the Government has undertaken to guarantee the principal (but not interest) of all deposits held with local banks in Kuwait, including savings accounts and current accounts.

TAXATION

The following is a general description of certain Kuwait, DIFC and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Notes and receiving payments under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kuwait

*This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955, as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955" (the "**Amendment**"), the Executive Bylaws of the Amendment (the "**Regulations**"), and various ministerial resolutions and circulars relating thereto issued by the Administrative Resolution (together, the "**Taxation Laws**") as interpreted and implemented by the DIT as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.*

Income tax

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, inter alia, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Pursuant to the Regulations, income generated from the lending of funds inside Kuwait is considered to be income realised from the conducting of business in Kuwait, and is therefore subject to income tax.

Pursuant to Law No. 22 of 2015 amending Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities (the "**CML Law Amendment**"), yields of securities, bonds, finance sukuk and all other similar securities regardless of the issuer thereof shall be exempted from taxation. The CML Law Amendment was acknowledged by the Kuwait Ministry of Finance Administrative Resolution No. 2028 of 2015 (the "**Administrative Resolution**").

However, see "Risk Factors - The application and enforcement of the Kuwaiti income tax regime is uncertain, and holders of the Notes which are "non-GCC corporate entities" may become subject to the Kuwaiti income tax regime in certain limited circumstances".

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

Retention

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct 5 per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. Unlike with withholding tax, the payer is not required to transfer directly the deducted amount to the DIT immediately, but instead retains such amount and releases it either: (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and interest payments. Given that neither the CML Amendment nor the Administrative Resolution address the issue of whether or not there remains an obligation, as described above, to make a deduction, a payer (such as the Guarantor) could be required to deduct 5 per

cent. from every payment made by it to a payee (such as the holders of the Notes), which amount would be released by the payer upon presentation to it by the payee of a tax clearance certificate from the DIT.

However, the holders of Notes shall be able to rely on the provisions in the Conditions (in particular, on Condition 9 (*Taxation*)) which require the Issuer and/or Guarantor to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not and accordingly, in practice, a holder would not need to present such a tax clearance certificate.

Other taxes

Save as described above, all payments in respect of the Notes may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Notes in connection with the issue or any transfer of the Notes.

Dubai International Financial Centre

Pursuant to Article 14 of Law No. (9) of 2004 in respect of the Dubai International Financial Centre (the "**DIFC Law**"), entities licensed, registered or otherwise authorised to carry on financial services in the DIFC and their employees shall be subject to a zero rate of tax for a period of 50 years from 13 September 2004. This zero rate of tax applies to income, corporation and capital gains tax. In addition, this zero rate of tax will also extend to repatriation of capital and to transfers of assets or profits or salaries to any party outside the DIFC. Article 14 of the DIFC Law also provides that it is possible to renew the 50-year period to a similar period upon issuance of a resolution by the Ruler of the Emirate of Dubai. As a result no payments by the Issuer under the Notes are subject to any tax in the DIFC, whether by withholding or otherwise.

In the event of the imposition of any withholding, the Issuer and the Guarantor have undertaken to gross-up any payments of principal or interest subject to certain limitations, as described in Condition 9 (*Taxation*).

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to sections 1471 to 1474 (inclusive) of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification,

reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction, such as Kuwait and the United Arab Emirates, would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 23 November 2020 between the Issuer, the Guarantor and the Joint Lead Managers, the Issuer has agreed to issue U.S.\$300,000,000 in aggregate principal amount of the Notes and, subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of Notes.

The Joint Lead Managers will be paid certain commissions in respect of their services for managing the issue and the offering of the Notes. To the extent permitted by law, the Issuer, the Guarantor and the Joint Lead Managers may agree that commissions or fees may be paid to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Notes purchased by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Issuer, the Guarantor, the Joint Lead Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Notes is consistent with its investment objectives.

The Joint Lead Managers will also be reimbursed for certain of their expenses in connection with the issue of Notes and each of the Issuer and the Guarantor has agreed to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

Each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer, the Group and their respective affiliates in the ordinary course of their respective businesses (see further "*General Information*").

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered any Notes, and will not offer, sell or deliver any Notes: (a) as part of their distribution at any time; or (b) otherwise until 40 days after the completion of the distribution of all Notes, other than in accordance with Rule 903 of Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer/manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended, the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Bank; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to Retail Investors in the EEA and the United Kingdom

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the EEA or

the United Kingdom. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than: (i) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMPO)**") or which do not constitute an offer to the public within the meaning of the C(WUMPO); and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than: (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA; (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018") the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and in the MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates (the "UAE") other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Notes to any person in the DIFC unless such offer is:

- (a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "DFSA Rulebook"); and
- (b) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the Conduct of Business Module of the DFSA Rulebook.

State of Kuwait

Each Joint Lead Manager represents and agrees that the Notes have not been and will not be offered, marketed and/or sold by it in Kuwait, except through a licensed person duly authorised to undertake such activity pursuant to Law No. 7 of 2010 Concerning the Establishment of the Capital Markets Authority and the Regulating of Securities Activities and its executive bylaws (each as amended) (the "CML Rules") and unless all necessary approvals from the CMA pursuant to the CML Rules, together with the various resolutions, regulations, directives and instructions issued pursuant thereto or in connection therewith (regardless of nomenclature or type), or any other applicable law or regulation in Kuwait, have been given in respect of the offering, marketing and/or sale of the Notes.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "Saudi Investor") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Saudi Capital Market Authority ("Saudi CMA") resolution number 3-123-2017 dated 27 December

2017, as amended by the Board of the Saudi CMA resolution number 1-104-2019 dated 30 September 2019 (the "**KSA Regulations**"), through a person authorised by the Saudi CMA to carry on the securities activity of arranging and following a notification to the Saudi CMA under Article 11 of the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Joint Lead Manager has represented that any offer of Notes to a Saudi Investor will be made in compliance with Article 11 and either Article 9 or Article 10 of the KSA Regulations.

The offer of the Notes shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 15 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under Article 9 or Article 10 of the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi CMA and (a) the Notes are offered or sold to a Sophisticated Investor (as defined in Article 9 of the KSA Regulations); (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyals 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 15 of the KSA Regulations.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Kingdom of Bahrain except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person's principal place of residence;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar

Each Joint Lead Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell, at any time, directly or indirectly, any Notes in Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar (including the Qatar Financial Centre). This Prospectus has not been filed with, reviewed or approved by the Qatar Central Bank, the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or any other relevant Qatar governmental body or securities exchange and may not be publicly distributed in Qatar (including the Qatar Financial Centre).

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Notes or possesses or distributes this Prospectus and neither the Issuer, the Guarantor nor any of the Joint Lead Managers shall have any responsibility therefor.

Neither the Issuer, the Guarantor nor any of the Joint Lead Managers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or the Notes may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Notes.

In connection with the offering of the Notes, each Joint Lead Manager and/or its affiliate(s) may act as an investor for its own account and may take up Notes in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Bank or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

GENERAL INFORMATION

Authorisation

The giving of the guarantee under the Subordinated Guarantee by the Bank and its entry into the Agency Agreement, the Subordinated Guarantee, the On-Loan Agreement and the Subscription Agreement was duly authorised by the Board of Directors of the Bank on 31 August 2020.

The issue of the Notes by the Issuer and its entry into the Agency Agreement, the On-Loan Agreement and the Subscription Agreement was duly authorised by resolutions of the Board of Directors of the Issuer on 30 September 2020 and by resolutions of the sole shareholder of the Issuer on 22 September 2020. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the execution and performance of the Agency Agreement, the On-Loan Agreement and the Subscription Agreement.

Approval of the Prospectus, Admission to Trading and Listing of Notes

Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Regulated Market. It is expected that the listing of the Notes on the Official List and admission of the Notes to trading on the Regulated Market will be granted on or around 24 November 2020. The total expenses related to the admission to trading are estimated at €5,000.

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List or to trading on the Regulated Market.

Documents Available

For so long as the Notes are outstanding, physical copies of the following documents will, when published, be available for inspection from the registered office of the Bank and from the specified offices of the Fiscal Agent for the time being in London (and, in the case of (a) and (b) below, on the website of the Bank at <https://www.nbk.com/nbk-group/investor-relations/debt-securities.html>):

- (a) the Certificate of Incorporation and Articles of Association of the Issuer and the Memorandum and Articles of Association (with an English translation thereof if applicable) of the Bank; and
- (b) a copy of this Prospectus.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS2252513713 and the Common Code is 225251371. The Financial Instrument Short Name (FISN) and the Classification of Financial Instruments (CFI) Code in respect of the Notes are as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the National Numbering Agency that assigned the relevant ISIN, in each case as may be updated.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1 210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Legal Entity Identifier ("LEI")

The LEI code of the Issuer is 549300GS015OCXR89U13 and the LEI code of the Guarantor is 549300NB7FE83IH6BW96.

Significant or Material Change

Save as disclosed in "*Risk Factors – The outbreak of communicable diseases around the world, in particular the COVID 19 pandemic, has led to economic volatility, which may materially and adversely affect the Group's business, financial condition and results of operations*", there has been (i) no significant change in the financial performance or position of the Group since 30 September 2020, and (ii) no material adverse change in the prospects of the Issuer, the Bank or the Group since 31 December 2019.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Neither the Bank nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Bank or the Group.

Yield

The yield of the Notes is 2.500 percent. on an annual basis. The yield is calculated as at the Issue Date of the Notes on the basis of the issue price. It is not an indication of future yield.

Auditors

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by the laws of the DIFC, and does not intend, to publish audited financial statements or appoint any auditors.

The Group's appointed auditors are Ernst & Young Al Aiban, Al Osaimi & Partners ("**E&Y**") whose business address is P.O. Box 74, 18 – 21st Floor, Baitak Tower, Ahmed Al Jaber Street, Safat Square 13001, Kuwait and Deloitte & Touche Al Wazzan & Co. ("**Deloitte**") whose business address is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of E&Y and Deloitte is regulated in Kuwait by the CMA and is a registered auditor licensed to act as an auditor in Kuwait by the Kuwaiti Ministry of Commerce and Industry.

The consolidated financial statements of the Group as at and for the years ended 31 December 2019 and 31 December 2018 have been jointly audited by E&Y and Deloitte in accordance with International Standards on Auditing, as stated in their reports included herein.

Websites

The contents of any website referred to in this Prospectus do not form part of this Prospectus and have not been scrutinised or approved by the CBI.

Joint Lead Managers Transacting with the Group

In the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Group or the Group's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Group routinely hedge their credit exposure to the Group consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

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Safat, 13001 Kuwait

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CALCULATION AGENT**

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Canary Wharf
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United Kingdom

REGISTRAR

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Germany

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To the Issuer and the Guarantor as to English law and DIFC law

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To the Joint Lead Managers as to English law and DIFC law

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To the Joint Lead Managers as to Kuwaiti law

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To the Guarantor

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Safat Square 13001
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GLOBAL COORDINATORS AND JOINT LEAD MANAGERS

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United Kingdom

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LISTING AGENT

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Ireland