الوطني
NBK

National Bank of Kuwait

2018 ANNUAL REPORT & FINANCIAL STATEMENTS

Diversifying for the Future

2018 AT A GLANCE

4 continents

6,318 global employees

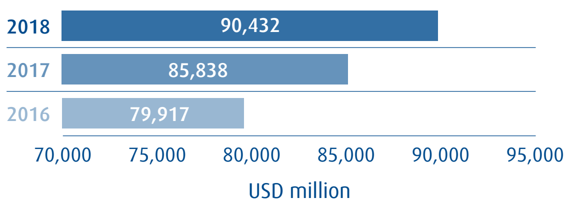
90.4 USD billion total assets

12.0% return on average equity

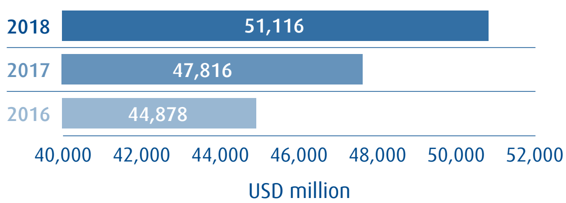
1.38% NPL ratio

17.2% capital adequacy ratio

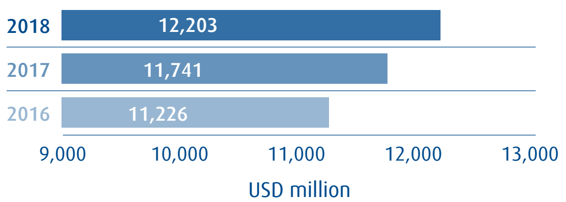
Total Assets



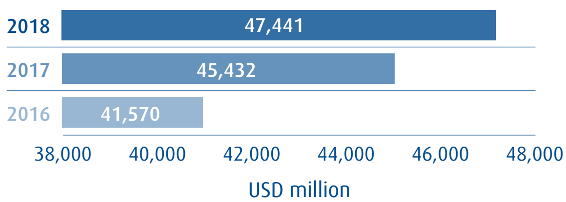
Loans, Advances and Islamic Financing



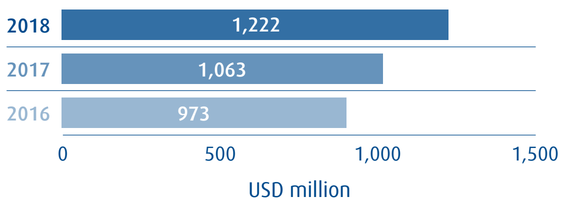
Total Equity



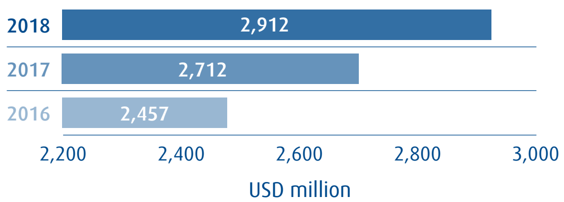
Customer Deposits



Net Profit Attributable to Shareholders



Net Operating Income



DIVERSIFYING FOR THE FUTURE

In 2018, NBK realised considerable progress in pursuit of its diversification strategy. Our diversification as a bank extends to our product and service offering, our growing reach in all existing geographies, our pursuit of new business avenues, and our commitment to a digital transformation that will form the foundation for our growth in the future. Learn more in this report.

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VISION

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

MISSION

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

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

To support the communities in which we operate

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

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

VALUES

Passion

Integrity

Conservatism

Knowledge

ABOUT NBK

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

The Bank has a reputation for experienced and stable management, with a clear strategy for strengthening its core business and expanding into new segments and markets. It has consistently achieved a highly competitive level of profitability, leading to robust shareholder returns, supported by high quality assets and a strong level of capitalisation. NBK offers customers a comprehensive range of financial products and investment services, with solutions for individuals, corporates and financial institutions. NBK is Kuwait's leading banking group in terms of assets, customer deposits, and customer loans and advances.

Ownership

Established by a group of leading Kuwaiti merchants, NBK has retained its core shareholder base since inception. Its shares have been listed on the Kuwait Stock Exchange since 1984, with a single shareholder (the Public Institution for Social Security) owning more than 5% of the share capital (5.53% as at 31 December 2018). NBK's market capitalisation as at 31 December 2018 was USD 16.8 billion.

Operations

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

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

HH Sheikh

Sabah Al-Ahmad Al-Jaber Al-Sabah

Emir of the State of Kuwait

HH Sheikh

Nawaf Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the State of Kuwait

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STRATEGIC REVIEW

The objective of our strategy is to achieve consistently superior returns for shareholders. The strategy is built on three cornerstones that guide the priorities we set for our business units and internal functions. They are to defend our leadership in core businesses, to grow outside the core, and to improve profitability.

CHAIRMAN'S STATEMENT

"Our diversification extends to the product and service offering, growth in existing geographies, pursuit of new business opportunities, and our commitment to a digital transformation that will position the Bank for future growth."

On behalf of the Board of Directors, I am pleased to introduce National Bank of Kuwait's 2018 Annual Report. As this report shows, we enjoyed another robust year of performance, increasing the scale and contribution of our international operations while consolidating our leadership position in Kuwait. With an eye to the future, we achieved considerable progress in pursuit of our diversification strategy. Our diversification extends to the product and service offering, growth in existing geographies, our approach to new business opportunities, and our commitment to a digital transformation that will position the Bank for future growth.

Our operating environment

While the wider MENA region was characterised by geopolitical challenges, creating headwinds for economic growth, Kuwait was resilient to the volatility around it. As global oil prices improved in the first half of the year, they retreated just as quickly in the final quarter. The first uplift gave a major boost to GCC sovereign balance sheets – with improved fiscal positions, although these were somewhat dented by bearish market conditions later in the year.

Wherever prices go, Kuwait's lower fiscal break-even oil price gives much protection from future volatility, and this is borne out by the strong sovereign credit ratings that it has maintained. GDP growth is projected to reach 2.9% in 2018, with non-oil growth reaching 2.8%. The pipeline of scheduled project awards remains robust – and this will continue to be an important growth driver for the country. In that regard, the role that NBK will play in supporting economic growth and the agenda of 'New Kuwait 2035' is assured – we are the no.1 Bank for financing public and private projects, a status that we intend to maintain.

Diversifying for the future

As you will discover in greater detail on later pages, 2018 was a year for diversification of our business, as well as for a focus on a digital transformation programme that will assure our future growth. Diversification can mean many things for a bank of our size. In this context, it extended to our products; our sources of income – particularly in international markets; and to our people, with important new senior hires made in 2018. All will be vital as we look to grasp the immense range of opportunities that are available to us. In technology and digitisation, we are already making considerable strides – particularly in terms of our internal operations, but also in the platforms and services that we are developing for our customers. Both will be essential as, in the future, we seek to compete with the world's most advanced banks.

Governance

We believe that good Corporate Governance is the key to maintaining the trust that our stakeholders place in us. In our view, solid governance is the cornerstone of a successful and sustainable bank. Throughout the year, we continued to develop and enhance our practices, completing periodic review and enhancement of our Board Charter and Corporate Governance policies, in addition to a periodic independent Board Effectiveness Evaluation.

One of my own priorities is to foster the right dynamic on the Board, by having Directors with the appropriate range and balance of skills, expertise and attributes – to ensure constructive challenge and support of the executive team, led by our Group Chief Executive Officer.

"We enjoyed another robust year of performance, increasing the scale and contribution of our international operations while consolidating our leadership position in Kuwait."

The Board of Directors continued to perform its duties during the year, providing wise counsel and expert guidance to management. NBK's Ordinary (AGM) and Extraordinary (EGM) General Assembly Meeting for FY2017 was held in March 2018, at which there was a quorum of 78.1%. The AGM and EGM approved the Board of Directors' recommendation to distribute a cash dividend of KD 174.5 million or 30 fils per share, as well as distributing 5% bonus shares. The Board also gave approval to issue all types of bonds. The Board and its Committees held a total of 59 meetings during 2018.

Delivering shareholder value

The Board of Directors is pleased to recommend a dividend distribution of KD 214.3 million or 35 fils per share at the Annual General Meeting. The proposed cash dividend represents 57.8% of NBK Group's Net Profit for 2018. The Board will also recommend the distribution of 5% bonus shares. In February 2018, the Bank announced an increase in its authorised share capital, from KD 600 million to KD 750 million. As at 31 December 2018, the Bank's total market capitalisation was KD 5.1 billion.

With thanks

On behalf of the Board of Directors, I would like to express our gratitude to NBK's Executive Management, who have endeavoured to maintain the Bank's strategic path while exploring new avenues for growth. The diversification success that was realised in 2018 owes a great deal to their leadership. I would like to thank our customers, across markets, who continue to place their trust in the Bank; and our employees – who make that trust possible. We are grateful to the Central Bank of Kuwait and the Capital Markets Authority, whose efforts are making our country and our industry increasingly attractive to investors. Lastly, my thanks to our shareholders for their ongoing support. We look forward to meeting and exceeding the expectations of all stakeholders in the years ahead.

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

BUSINESS MODEL

NBK's business model leverages considerable resources available to the Group, which include a strong brand, an international reach, a high level of financial strength, and a powerful corporate culture. We are thereby able to focus our operations and initiatives on a wide range of customer types, across local and international markets, to build a suite of products and services that will meet and exceed their expectations. With our business model, we strive to deliver value to our key stakeholders – from customers and employees to the local community, regulators and our shareholders.

OUR RESOURCES

Strong brand with a strong bond and reputation among our clientele as well as international recognition as a trusted institution and a regional leader

International reach bridging capital and trade flows within MENA and with the global markets

Financial strength enabling us to support our clientele with significant transactions

Strong corporate culture that values passion, integrity, conservatism and knowledge

OUR BUSINESS FOCUS

- Universal Bank in Home Market delivering world class products and highest service quality to our retail and wholesale clients
- Expanding footprint and establishing regional clientele in MENA
- Playing an active role in trade flows between MENA and the rest of the world
- Building a global Private Banking and Asset Management franchise serving regional clientele

THE VALUE WE GENERATE FOR OUR STAKEHOLDERS

Clients
Delivering positive outcomes to clients and enabling them to protect their wealth

Employees
Providing opportunities for workforce to learn, innovate and transform into valued assets

Shareholders
Delivering consistent returns and long-term value

Regulators and Governments
Demonstrating responsible growth, ensuring transparency and strong governance

Communities
Creating a positive change by supporting social and economic development of communities

INSTITUTIONAL STRENGTH

NBK remains a fundamentally robust Bank, which is borne out by the continuing trust that our customers and shareholders have placed in us. This institutional strength is also demonstrated by stable long-term credit ratings, and a host of industry awards.

Credit ratings

In 2018, the world's three leading rating agencies reaffirmed their confidence in the stability of NBK as a financial institution.

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

Awards and accolades

Our long track record of recognition by global awards bodies continued into 2018.

Global Finance

- Best Private Banking in Kuwait
- Best FX Provider in Kuwait
- Best Bank in Kuwait
- Best in Mobile Banking – Consumer, Kuwait
- Best Consumer Digital Bank – Kuwait
- Best Mobile Banking App – Consumer, Kuwait

Euromoney

- Best Bank in Kuwait
- Best Private Bank in Kuwait
- Best Cash Management for Non-financial Institutions

Brand Finance®

- Most Valuable Banking Brand on Kuwait

The Banker

- Bank of the Year – Kuwait


BEST FX PROVID
PROVIDER AWARD 2019
GLOBAL FINANCE

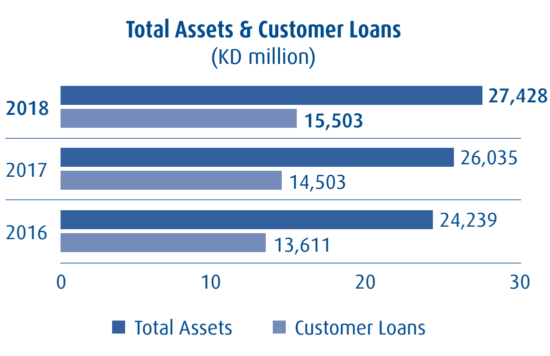
GROUP CEO'S MESSAGE

"The diversification of our income sources and customer base was a key focus, as was the heightening of our commitment to improving and growing our digital capability."

While the local and regional banking sector faced challenges due to a high level of liquidity putting pressure on credit growth, NBK recorded another set of exceptional results, as the breadth of its operations and the extent of the international footprint mitigated risk. The diversification of our income sources and customer base was a key focus, as was the heightening of our commitment to improving and growing our digital capability. Staff across the Bank worked tirelessly to meet the expectations of our customers and we have, consequently, delivered significant shareholder value.

Group performance

As in previous years, NBK was successful in defending and growing its leadership of Kuwait's financial services sector. Total Assets reached KD 27.4 billion, compared with KD 26.0 billion in 2017, increasing by 5.4%, with Customer Deposits increasing by 4.4% to reach KD 14.4 billion and Customer Loans and Advances growing by 6.9% to KD 15.5 billion. Net Profit for the year was KD 370.7 million as compared with KD 322.4 million in 2017, representing growth of 15% on the previous year.



International Banking Group (IBG) accounted for 30.4% of the Bank's Net Profit, increasing from a contribution of 29.4% in 2017. Our international operations had a stellar year and continue to provide essential risk mitigation for the wider Group. So too does Islamic Banking, which provides further diversity to our income profile through NBK's 59.5%-owned subsidiary Boubyan Bank. In 2018, Boubyan Bank's Total Assets were KD 4.3 billion, increasing by 9.4% on the previous year.

Spotlight on: digital transformation

A core component of the diversification theme in 2018 was the considerable effort made by the Bank towards its digital transformation. During the year, we accelerated that programme across markets, making important steps towards its long-term objectives. This was a year when we positioned ourselves for the next generation in digital banking. The digital transformation is cross-segment and cross-geography, impacting our internal processes and systems as well as the experience and opportunities of our customers. We are building a 'digital mindset' for the Bank, to support an effort towards cultural transformation, which focuses on our employees. Aside from innovative products and services described in more detail on later pages, the most important achievement of 2018 was the completion of NBK's Digital Roadmap, which we will follow in the coming years. The Roadmap included defined KPIs that are directly linked to profitability, and which will allow accurate progress tracking. At the same time, the Bank has taken steps to diversify its leadership model, with an eye to the opportunities that lie ahead. In 2018, we were pleased to appoint a Chief Data Officer and a Chief Digital Officer, who will be instrumental in driving our digitisation programme as we develop to become a bank for the

“The digital transformation is cross-segment and cross-geography, impacting our internal processes and systems as well as the experience and opportunities of our customers.”

future.We look forward to reporting on our first set of deliverables in next year’s Annual Report.

During the year we introduced several technology initiatives that position us ahead of local and regional peers. Some of these included selfie pay, biometric card, android smart phone finger print as well as video chat on mobile. Domestically, we joined both swift GPI and Ripple networks and became the first to use blockchain technology for cross border transfers, allowing our customers to enjoy real-time remittances. In most cases, the journey is only just beginning, but we believe that we have now reached a leadership position in MENA that we hope to one day replicate on the international stage.

Investing in people

None of our strategic initiatives are possible without the people who work to make them a reality. We place enormous value on the quality and commitment of our staff at all levels and in all markets. We are also committed to their diversity and are proud to employ a workforce that is 45% female – an impressive statistic for a MENA business, and indeed for any global bank. HR highlights in 2018 included the design and development of the NBK Employee Value Proposition, which will be formally introduced in 2019, the completion of the Annual Succession Planning project for level 1 and level 2 positions, and the introduction of Employee Development Curriculums across the Bank, covering areas including Credit & Relationship Management, Trade Finance and Internal Audit.

Strategic direction

Looking ahead, our strategic pathway remains essentially unchanged. Our primary objective is to deliver superior returns to shareholders, which we will achieve by defending our leadership of core businesses, maintaining our dominant share of the domestic Kuwaiti market, achieving growth in target segments and leveraging our international presence. Having achieved particularly robust performance in Egypt, we will build upon our recent success to attract talent, continue outperforming our peers and gain market share in that market, while in Saudi Arabia we will seek to aggressively grow the client-base and AuMs of the recently launched NBK Wealth Management Company. The Kingdom is a market that carries a wealth of opportunities, and now our job is to tap them.

The Bank’s management and staff deserve high praise, for the diligence and integrity that they have shown in overcoming challenges and contributing to the Bank’s current and future success. As ever, the guidance of our Board of Directors was of immense value to NBK’s senior leadership. We look forward to maintaining our commitment to customers in Kuwait and abroad, as the Bank develops a more diverse and sophisticated offer that is built to exceed their expectations.

Isam J. Al-Sager
Group Chief Executive Officer

DIVERSIFYING FOR THE FUTURE

This was a year for developing an 'infrastructure for the future'.

This year, the diversification of our structure and operations was a key area of focus. Diversifying a financial institution of our size has wide-ranging characteristics, and this was borne out by the breadth of the initiatives we undertook.

During 2018, we made important progress towards diversifying our international offer, particularly in the context of our most important region – the Middle East. This was most evident in the expansion of our branch network in Saudi Arabia, which grew from 1 to 3. This year we also formally entered Saudi Arabia's wealth management market, through the launch of NBK Wealth Management Company. With the direct support of NBK Global Private Banking and NBK Capital, the CMA-regulated subsidiary will offer Wealth Management, Asset Management, deal arranging, Brokerage, advisory services and custody arrangements.

Meanwhile, our presence in wider international markets maintained its importance, with International Banking playing a vital role in mitigating risk across the Group, while growth avenues into a wider range of product categories – particularly Islamic finance through Boubyan Bank – further diversified our offer.

Our diversity as a financial services provider is vital to our close relationship with Kuwait's economy. Not only have our many income streams been a safeguard in a year when the project awards pipeline was slower than most had anticipated, but with the Kuwaiti government highly motivated to accelerate its capital spending programme, the depth of our service offer will play a vital role in supporting that agenda.

Technology in the spotlight

One of the most important characteristics of our drive to diversify is our growing emphasis on technology and digitization. We have expanded and advanced the technologies and electronic processes employed across the Bank – in the context of products and segments, as well as the back-end for entire operating markets, such as Egypt.

This was a year for developing an 'infrastructure for the future', on which we are sure to report in detail during the coming years, as we pivot towards prioritizing our investment in technology and innovation. This process will place us on a footing ahead of our regional peers. Technology highlights in 2018 included greater digitization of our core back-office processes, and the launch of unique new products such as the Smart Wealth platform.

NBK has become a more dynamic Bank, offering a wider range of products and services across a truly international footprint. The diversification journey is far from over, and we look forward to building an operating architecture that will guarantee our future growth.


NLINE SHOPPING
CONTINUE SHOPPING

GROUP CFO'S REVIEW

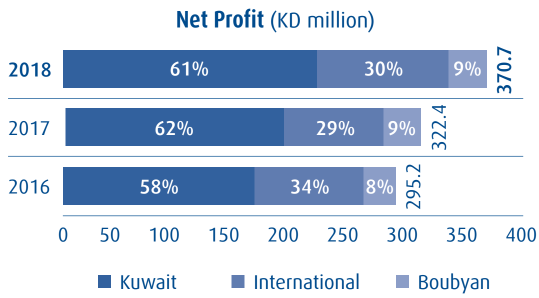
2018 was another year of strong earnings growth for the Group, with increased contributions from operations in our domestic market and from operations across our international network. The Group continued to reap the ongoing benefits of its diversified business model and has long enjoyed the sustained earnings power of NBK's brand and reputation. 2018 saw the Group progress its twin strategies of maintaining market leadership in its home market and in selectively increasing its operational footprint in the GCC.

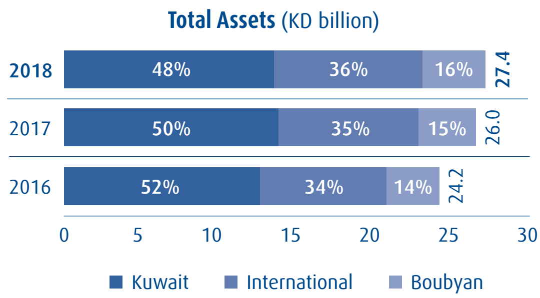
One of the enduring and priority themes of the year was the maintenance of optimal operational efficiency across businesses and geographies of the Group. In this regard, it was rewarding to see the Group's cost to income ratio fall to 31.3%, a commendable result for this simple but important measure of operating efficiency.

Equally important is the Group's strategic imperative to maintain the focused and sustained levels of investment that are necessary to underpin future earnings growth. It was in pursuit of this imperative that the Group continued to invest heavily in technology and digital capabilities during the year. The traditional global banking model is facing significant challenges, not least from digital disruption within the industry, but also from the FinTech industry. Our response has included investing heavily in the selective deployment of the latest business enabling technology solutions, in refreshing our core IT networks and infrastructures and in ensuring first class cyber security resilience and capabilities. The Group is well-advanced in building a new state-of-the-art Data Centre facility in Kuwait City, which we expect to complete during the coming year.

Financial performance

The Group reported Net Profit of KD 370.7 million for the year, an increase of 15% on 2017. The Operating Surplus (Net Operating Income less Operating Expenses), grew by 8.9% to KD 606.9 million. This increase in earnings was driven primarily by strong growth in lending volumes, buoyant levels of fee-generating business activities and tight cost control. Total Assets grew by 5.4% to KD 27.4 billion, Loans and Islamic Financing grew by 6.9% to KD 15.5 billion, and Customer Deposits grew by 4.4% to KD 14.4 billion. Non-Interest Income (excluding net investment income) increased by 9.6% to KD 190.6 million. It is insightful to exclude net investment income when considering operating performance, as we consider this a truer measure of core banking income generation.





Total Costs grew by 4.1%, to KD 276.3 million. This modest growth in costs demonstrates the effectiveness of the Group's ongoing attention to rigorous cost management, together with the relentless pursuit of operational excellence in line with banking best practices. The tight management of our cost base, coupled with the solid core revenue generating capability of our businesses, drove the cost to income ratio down to 31.3% (32.3% in 2017). Other key profitability metrics similarly improved, with return on average assets increasing to 1.38% (1.28% in 2017) and return on average equity increasing to 12.0% (10.8% in 2017).

The Group's international operations contributed 30.4% to total Group earnings (29.4% in 2017). Similarly, and in the context of earnings diversification, we were pleased to see continued strong growth at NBK's Islamic banking subsidiary, Boubyan Bank. Profits at Boubyan Bank grew by 17.9% to KD 56.2 million.

"Equally important is the Group's strategic imperative to maintain the focused and sustained levels of investment that are necessary to underpin future earnings growth."

Key ratios (%)	2016	2017	2018
Return on Average Assets	1.22	1.28	**1.38**
Return on Average Equity	10.2	10.8	**12.0**
Net Interest Margin	2.47	2.61	**2.69**
Non-interest Income % Total Income	23.6	23.5	**21.8**
Cost to Income Ratio	33.8	32.3	**31.3**
NPL Ratio	1.28	1.42	**1.38**
Loan Loss Coverage Ratio	365.2	287.5	**228.1**
Capital Adequacy Tier 1 Ratio	15.7	15.8	**15.3**
Capital Adequacy Ratio	17.7	17.8	**17.2**

The Group maintained a strong level of capitalisation throughout the year. NBK's capital adequacy ratio at year-end was 17.2% (17.8% in 2017). This level of capitalisation is in keeping with NBK's risk appetite and is comfortably in excess of NBK's Basel 3 capital adequacy requirement as determined by the Central Bank of Kuwait. The Group reported a Basel 3 leverage ratio of 9.2% (9.2% in 2017) and a Basel 3 liquidity coverage ratio of 163.0% (168.7% in 2017). Asset quality ratios remained strong. The ratio of non-performing loans to gross loans at year-end was 1.38% (1.42% in 2017) with coverage at a comfortable 228.1% (287.5% in 2017).

An overriding objective behind everything that the Group does, from strategy formulation through to consistent and well-executed implementation across the organisation, is the imperative to deliver maximum long-term added value to shareholders. The Group strives to deliver robust financial performance each year whilst at the same time taking great care to ensure that appropriate levels of investment are made in the technology, process and human capital inventories that will enable sustained growth and profitability in the future.

The Board of Directors has recommended a cash dividend of 35 fils per share (30 fils per share in 2017) and 5% bonus shares (5% bonus shares 2017). Earnings per Share (EPS) increased in 2018 to 58 fils (50 fils in 2017), with Equity Attributable to Shareholders of the Bank increasing to KD 2.95 billion (KD 2.86 billion in 2017). Market capitalisation at year-end was KD 5.1 billion (KD 4.2 billion in 2017).

Jim Murphy
Group Chief Financial Officer

ECONOMIC ENVIRONMENT

Geopolitics and volatile oil prices pressured regional financial markets and economic growth throughout 2018. Global oil prices turned bearish late in the year, erasing encouraging gains made in its first half, and putting at risk planned fiscally-led growth efforts that hope to invigorate the region's sluggish economies, affected by years of consolidation. Growth in the Kuwaiti economy was modest but positive, supported by a low fiscal break-even price that facilitates the government's spending commitments towards its diversification plan.

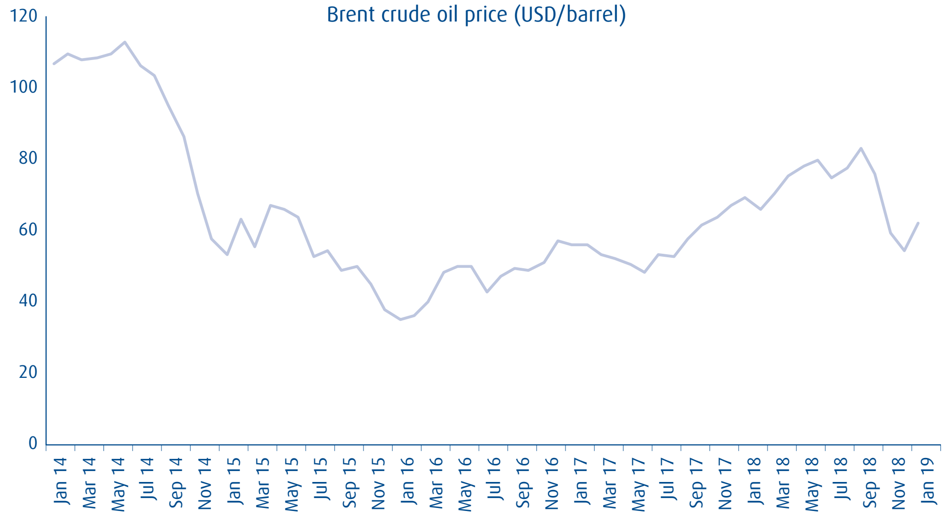
Global view

International financial markets were hit in the second half of 2018 by signs of slowing global economic growth and political tensions, particularly the trade war between the US and China. These concerns intensified towards the end of the year, as the US Federal Reserve (Fed) continued its monetary policy normalisation by implementing its fourth rate hike of the year in December, triggering a sharp drop in the US stock market. Meanwhile, oil prices dropped from a high of over USD 86/barrel (Brent crude) in September to reach USD 53/barrel at year-end. Economic activity in the US was mostly strong, but moderated towards the end of the year, with core inflation coming back below the 2% target and expectations of Fed hikes in 2019 scaled back.

The US-China trade war was an increasing cause for concern across international markets. While there is now a sense of renewed optimism on reaching a deal, there remain fears that an ongoing dispute will increase pressure on global economic growth. Meanwhile, in Europe, the failure to reach a satisfactory Brexit deal remained a key issue that, if not resolved quickly, will have profound implications for growth in the UK and the country's ability to trade with the continent. Economic growth in Europe is weakening amid headwinds coming from within the region and outside, including political discord between the EU and its member states, as well as by protectionist trade policies adopted by the United States. A trade deal with the US is yet to be negotiated. Elsewhere, the fragility of emerging markets was tangible, especially for exposure to expensive foreign debt, influenced partly by the increase in the interest rates in the US and the growing strength of the US dollar.

Oil market volatility

In November, worries over the global oil demand outlook and a potential market glut caused the largest monthly fall in prices (22%) in ten years, prompting OPEC to rethink output. Oil market sentiment became overwhelmingly bearish in 4Q18, driven by record-high US crude production and two-year high OPEC supply.



Accelerating price decline encouraged OPEC and its allies to recommend production cuts to bring supply and demand back into balance, which they did in December – requesting a reduction in output of 1.2 million barrels per day.

An end to the US-China trade war?

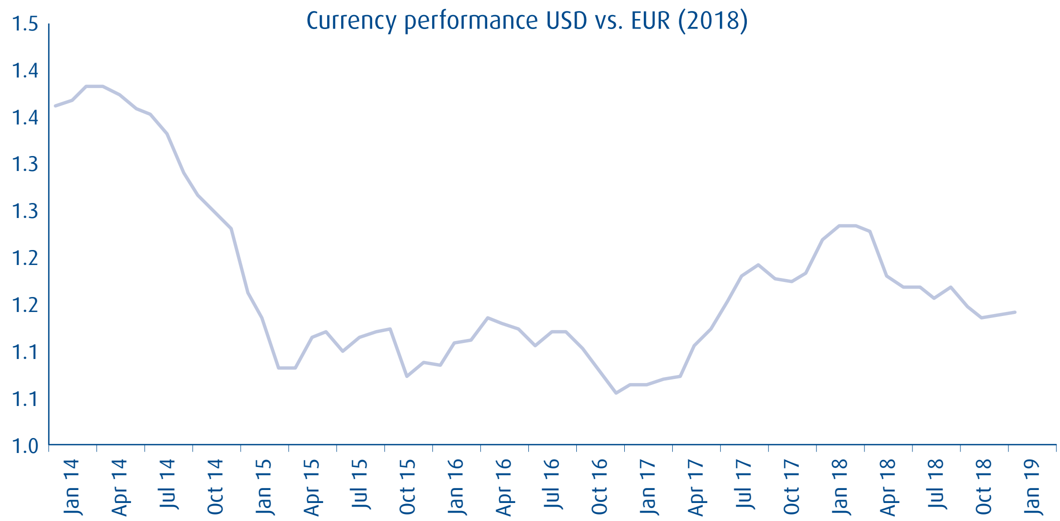
Following the decision by the US to temporary hold off from tariff hikes scheduled for January on imports from China for 90 days, and China in return agreeing to purchase more US goods to reduce the trade gap, serious negotiations took place recently and it appears that both sides are keen to reach an accord. However, if the 90-day deal breaks down, fears about the impact of an escalating trade war hampering global growth would escalate.

A softer Eurozone

Economic momentum in the Eurozone slowed relative to its performance in 2017, affected by the US's protectionist trade policies and political turmoil, led by ongoing discord between Italy's populist government and Brussels. The Eurozone composite PMI ended 2018 at a four year low of 51.3, from 58.1 a year ago, and capping four months of consecutive declines. The lacklustre performance reflected growing softness in manufacturing and services, underpinned by declining export momentum in the wake of inward looking US trade policies. Meanwhile, core inflation hovered stubbornly around 1.0% throughout 2018, well below the European Central Bank's (ECB) 2% target, suggesting that a weak business climate may be discouraging businesses from passing higher prices onto customers. Nonetheless, the ECB confirmed the end of its asset purchase programme in December 2018, but remains cautious on the outlook and downgraded its forecasts for growth and inflation. In this regard, significant amount of fiscal stimulus is needed to prop up inflation, and the ECB indicated could still use monetary stimulus even beyond 2018 as it plans to reinvest proceeds of its maturing bonds.

Currencies

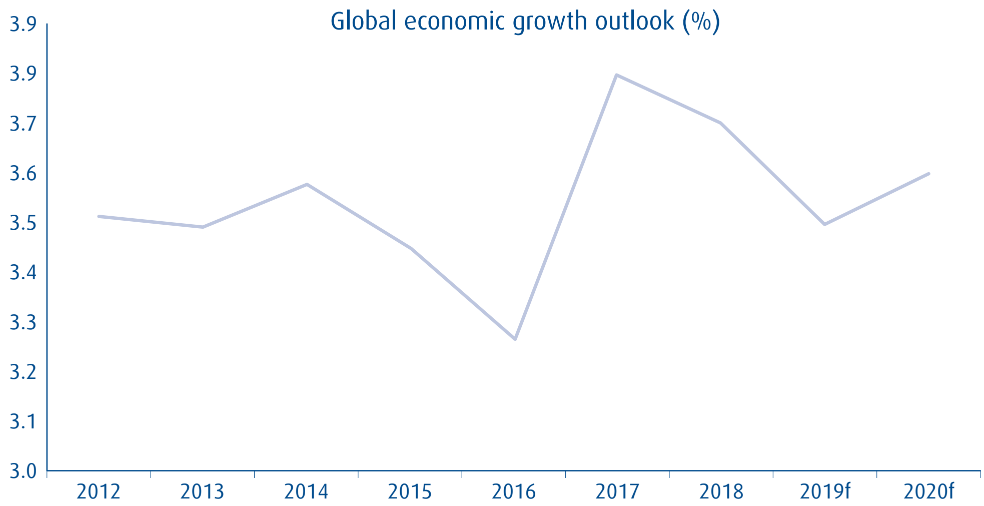
FX markets were dominated by three themes: the US-China trade war, global growth divergence, and politics. Emerging market currencies were hit by increasing US trade protectionism, with weakness later amplified by concerns over their ability to service foreign debt due to a strengthening dollar. The latter was the result of rapid growth in the US economy when the rest of the world was slowing, as well as tighter US monetary policy, which saw the US dollar strengthen 5% on a trade-weighted basis in 2018. Inconclusive Brexit negotiations also weighed heavily on the pound sterling, while political uncertainty over Italy's elections and public finances, as well as leadership and economic woes in Germany, contained enthusiasm for the euro. Meanwhile, the Kuwaiti dinar maintained a broadly stable value against the US dollar through 2018, and therefore appreciated against other currencies in its basket.



Currency performance USD vs. EUR (2018)

Global growth outlook

As of October, the IMF revised down its global growth forecast by 0.2%, to 3.7% for 2018 and 2019. The revised forecast cited momentum in the US supported by fiscal stimulus being partially offset by the negative impact of trade and tariff disputes with China. While these projections are subject to revision in early 2019,



a favourable end to those disputes would provide a boost for the global growth outlook, but such a resolution is by no means assured. The US outlook has also been clouded by the impact of the partial shutdown of the federal government due to a budgetary row between President Trump and the Democratic-controlled House of Representatives.

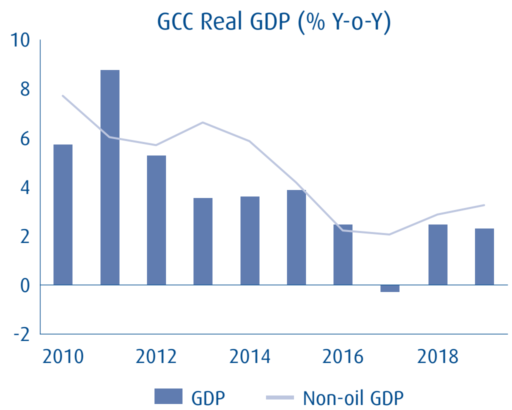
Growth consensus for the Eurozone remains conservative, as Germany, the largest economy in Europe is witnessing low growth that could have turned into a recession if it were not for modest growth in the last quarter of the year. The UK is likely to face major challenges as the Brexit deal negotiated with the EU was rejected by a big margin in parliament. It is uncertain if a satisfactory solution can still be found for the completion of the Brexit process before the 29 March 2019 deadline. Meanwhile, among emerging and developing economies, prospects for many energy exporters (including in MENA) did not improve as much as forecast, as oil prices sank in the final quarter. Conservative growth predictions exist for countries including Argentina, Brazil, Iran and Turkey, where factors including tighter fiscal conditions, currency volatility and geopolitical tensions may slow growth.

MENA view

Rehabilitation for the GCC

Macroeconomic performance improved in the GCC bloc on the back of higher oil prices and production as well as government stimulus programmes, with headline growth rising to 2.4% in 2018 from -0.3% in 2017. However, growth will be trimmed to 2.3% in 2019 due to recently-agreed OPEC production cuts. Bahrain discovered sizeable tight oil and offshore gas deposits, which will support output, and Qatar will look to expand its LNG production capacity by 30%. For both countries, the monetisation of these gains will probably occur in the medium-to-long term. GCC real oil GDP in 2018 is estimated to have expanded by 2.0% and projected to increase by 0.7% in 2019.

Non-oil GDP is estimated to have picked-up to 2.9% in 2018 from 2.1% in 2017, and is forecasted at 3.3% in 2019. The gradual acceleration in growth has been underpinned by public investment linked to long-term development plans, private sector stimulus and easing fiscal consolidation. Although the latter has been jeopardised by the fall in oil prices towards the end of 2018, the threat of cheaper oil could also provide extra impetus to GCC governments' diversification efforts, particularly towards the development of the private sector as a source of future growth and toward attracting more foreign direct investment.



Egypt's indicators: mostly positive

Outside of the GCC, the Egyptian economy has been recovering nicely since the adoption of a strong and ambitious economic reform program in late 2016, supported by a USD 12 billion loan from the IMF. The significant progress made ushers in a new era for Egypt. Indeed, growth has been strong, estimated at more than 5% in 2018 and is expected to remain high in 2019. Tourism and exports are recovering, and these have been helped by a cheaper currency. Inward remittances have increased substantially, and the country's international reserves have risen. At the same time, the budget deficit has contracted, the unemployment rate has started to drop and public debt dynamics have improved. While indicators are mostly favourable, Egypt is still facing a number of risks, including high exposure to external shocks, persistently high inflation, and high debt servicing costs. However, with steadfast implementation of reforms, a more competitive currency, a stronger fiscal position and a lower debt level, as well as an improved regulatory environment, the outlook is encouraging.

Headwinds and tailwinds

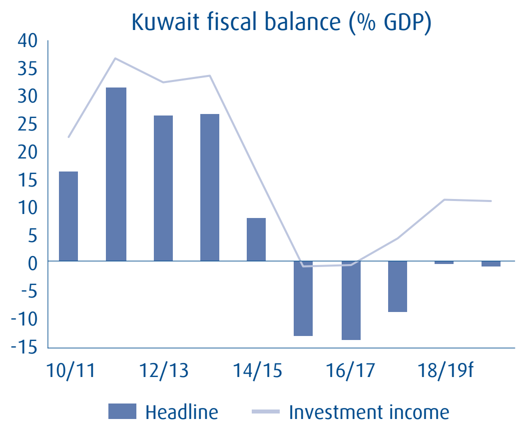
Acting as a brake on regional growth has been the lacklustre state of credit growth amid tightening monetary conditions, despite improving deposit and liquidity levels related to higher oil revenues and international sovereign debt issuances. Borrowing costs have increased as regional central banks have (mostly) raised their benchmark interest rate in line with Fed rates.

Fiscal performance significantly improved in 2018 with support from oil and gas revenues and also rising non-oil revenues helped by taxes and tariffs, such as Value Added Tax (VAT), which was implemented by some GCC states. Subsidies have been pared back, and governments continue to seek saving opportunities even as they increase capital spending. After narrowing to 3.0% of GDP in 2018 from 5.9% in 2017, the aggregate GCC fiscal deficit is expected to decline to edge up to 4.0% of GDP in 2019 on lower oil prices.

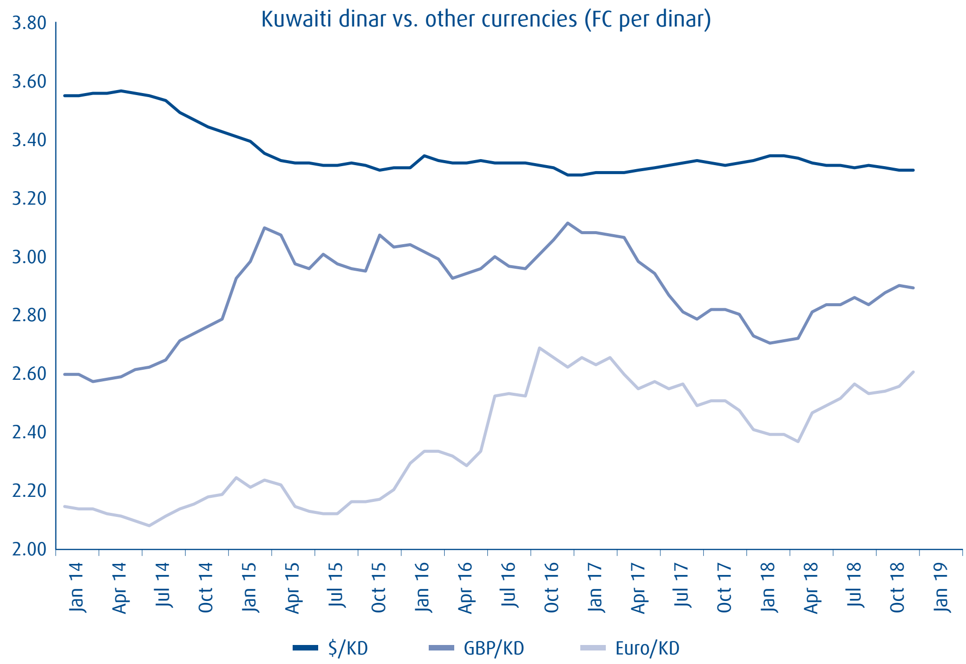
Financial markets reacted positively to improved macroeconomic conditions in the GCC. Generally speaking, equities received a robust boost from increased domestic and international portfolio inflows, following index upgrade announcements for the Saudi and Kuwaiti markets by MSCI and FTSE Russell. The Kuwaiti stock market saw record overseas inflows. In fixed income markets, international investors sought a safe-haven in MENA instruments, as emerging market debt delivered one of its worst years on record. Strong investor appetite remains for issuance from GCC sovereigns and corporates.

Spotlight on Kuwait

In Kuwait, non-oil growth rose to 2.8% in 2018 from the 2.2% recorded in 2017. Headline GDP growth is projected to have rebounded to 2.9% in 2018, resulting to a large extent from an improved oil price environment and higher oil production. The pipeline of scheduled project awards was robust – although actual awards were fewer in 2018 than the previous year. Meanwhile consumer spending was broadly solid against a backdrop of low inflation, steady employment growth and strong confidence levels. There were also encouraging signs in the real estate sector, which continued to emerge from its previous slump: property sales rose by 56% Y-o-Y in 2018, while prices of homes and apartments were more rising. Despite these positive signs however, further reforms are still required to boost longer-term growth potential.



Inflation is estimated at 0.6% for 2018 on the back of soft food and housing prices and a stronger dinar, though should pickup slightly in 2019 as some of these downward pressures unwind. Meanwhile the fiscal deficit narrowed to 9% of GDP in FY17/18 from nearly 14% of GDP a year earlier thanks to higher oil prices; this year a further narrowing to just 0.5% of GDP is forecast despite another solid projected increase in spending of 5%. A deficit of this size can be comfortably financed out of the government's General Reserve fund estimated at about USD 88 billion since the government is unable to issue any further debt until the new debt law has been passed by parliament. With substantial overall financial buffers, estimated at nearly USD 600 billion, mainly in the Future Generations Fund, Kuwait is in a position to withstand major negative shocks without the need to resort to extraordinary and painful measures.

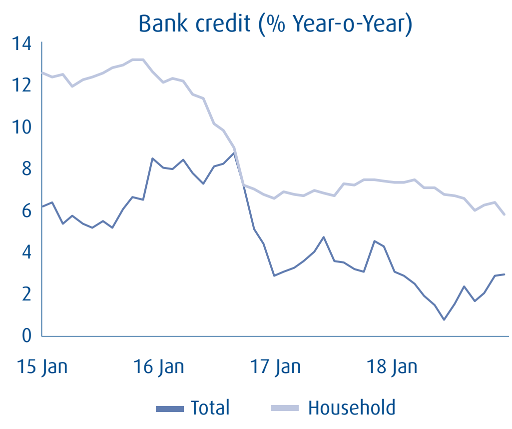


Kuwait banking sector

The Kuwaiti banking sector comprises 23 banks, including 11 domestic banks (five conventional, five Shariah-compliant and one specialized), and branches of 12 international banks (11 conventional and one Islamic). The sector is regulated by the central bank to ensure the safety of the banking industry through strict supervision and imposition of prudential ratios, such as lending limits and concentrations, investment limits, liquidity and capital adequacy. The sector has demonstrated strong resilience and elevated levels of financial soundness over the past 10 years. It is well capitalized, with a 5-year Capital Adequacy Ratio average of 18.0%, 5.0% higher than the required minimum.

Monetary policy remains geared towards maintaining the dinar's peg to a basket of currencies dominated by the US dollar. Unlike some other Gulf countries – whose currencies are fixed against the dollar – the Central Bank of Kuwait (CBK) left its lending rate on hold at 3.0% in December following the 25bps hike by the US Federal Reserve. The CBK has now followed four out of the Fed's nine rate hikes during the current tightening cycle which began in 2015, though the repo rate – a benchmark for deposits – has risen more frequently. In keeping rates low, the central bank is taking advantage of the flexibility provided by the peg to an exchange rate basket to support economic growth while using other monetary policy instruments to ensure the stability of the dinar.

Credit growth has decelerated over time and reached a six-year low of 0.8% Y-o-Y in May 2018, mostly reflecting weakness in business lending, though it was also affected by some one-off corporate repayments in 2017. It had picked up to 4.3% during the second half of 2018. Lending to households (normally for home purchases) has been more solid at 6-7% growth for most of the last 12 months, but has witnessed some softness in medium-term loans extended for non-housing purposes. Credit growth is expected to wmaintain that pace in 2019, with business lending supported by a pick-up in project awards. The central bank's recent relaxation of household lending restrictions is also expected to boost borrowing over the next year.



STRATEGY AND KPIs

Our strategy is built on three cornerstones, which guide the priorities that we set out for each of our business units.

Our strategy is built on three cornerstones, which guide the priorities that we set for each business unit and internal function. These are 1) to defend our leadership in core businesses; 2) to grow outside of the core; and 3) to improve profitability.

Our core business is conventional retail and wholesale banking in Kuwait, and currently constitutes two thirds of NBK's bottom line. Outside the core, we pursue diversification through i) growth in Islamic Finance within and outside Kuwait, through our subsidiary Boubyan Bank; ii) continuous expansion of our presence and clientele in MENA; and iii) building a global network facilitating our clients' trade and investments.

The third cornerstone of our strategy is to improve profitability in terms of cost-to-income, and in terms of Return on Equity by introducing capital productivity into day-to-day decision-making. The aim of our strategy, as directed by these cornerstones, is to achieve consistently superior returns to shareholders.

Our strategy is presented in a visual format, articulating how the strategic cornerstones support our business goals and guide the priorities for each of the business units and functions. The strategy is conceived in accordance with the current 5-year strategic plan, which is revisited by management and the Board of Directors on a bi-annual basis.

Strategic cornerstones

Forces at work

Macroeconomic trends
- Stabilizing oil price at current level
- Prospects of lower economic growth
- Lower demand for credit

Regulatory trends
- Introduction of IFRS9 and VAT
- High capital requirement
- Growing regulatory requirements across geographies

Customer preferences
- Rapid adoption of new products, services and channels by young clientele
- Demand for convenience and higher service levels
- Decreasing loyalty

Technology development
- Threat of technology disruptors (e.g. payments)
- Faster pace of change in products and services enabled through FinTech
- Mobile banking enabling continuous customer engagement

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

Business pillars

Consumer Banking	Corporate Banking	Private Banking	International Banking	Treasury	NBK Capital	NBK Suisse	Boubyan Bank
Defend market share	Defend market share	Build Global Private Banking expanding frontline across the region	Continue transformation in Egypt	Launch new products	Roll-out new investment products	Grow with market and defend against Swiss banks tapping GCC	Maintain aggressive growth strategy
Enhance digital offer, focus on mobile banking	Maintain ROE	Broaden product portfolio	Enhance collaboration across the franchise	Enhance transfer pricing	Explore new distribution channels	Leverage Private Banking expansion to acquire clients	Explore Group synergies
Introduce new products	Grow in mid-corporate segment				Drive fund performance		
	Offer cash management				Pursue mandates with active clients		
	Cross-sell across the group						

Enablers

Operations
Improve efficiency and effectiveness through automation. restructuring, change management and centralisation

IT & Digital
Enhance infrastructure and support group innovation and digitisation agenda

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

Finance
Invest in Management Information Systems

Human Resources
Enhance talent management through acquisition, retention and employee value proposition (EVP)

Foundation

People

Accountability | **Core values**

Key Performance Indicators (KPIs)

The delivery of our strategy is measured against a set of Key Performance Indicators (KPIs), which enable management and the Board to monitor progress towards our strategic goals. The KPIs are categorised as 'financial' and 'non-financial'. The table below summarises the KPIs and indicates our performance level in 2018.

	DIMENSION	KPIs	OBJECTIVES	PERFORMANCE 2018
FINANCIAL	Profitability	Return on Assets	Gradually improve	√
		Return on Equity	Gradually improve	√
		Cost-to-Income ratio	Gradually improve	√
	Growth	Core asset growth	Maintain current level	√
	Resilience	% of FX, fees and commissions to total income	Maintain current level	√
		% of income from international business	Recover to pre-divestment of IBQ	√
NON-FINANCIAL	Customer perception	Attitude and behaviour survey results	Maintain perception as leading bank in Kuwait	√
	Market perception	Ratings assigned by credit agencies	Maintain high credit ratings	√
	Maintenance of Kuwait leadership position	Market share of salaried Kuwaitis	Gradually improve	√
		Market share of corporate assets in Kuwait	Maintain current level	√

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

OPERATING REVIEW

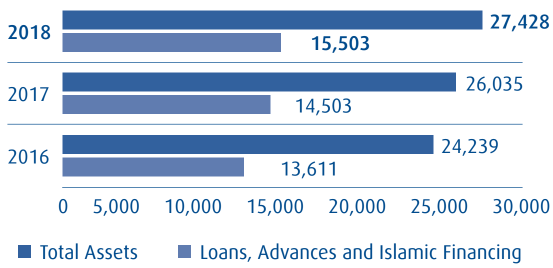
In 2018, the Group maintained its commitment to defending market share while diversifying and growing in new product and service categories.

Group performance

In the course of the year, NBK was successful in maintaining its leadership position in Kuwait across core business segments. This was achieved by an ongoing commitment to defending market share while diversifying and growing in new product and service categories – in line with our strategic objectives.

As at 31 December 2018, Total Assets were KD 27.4 billion, as compared with KD 26.0 billion in 2017, representing an increase of 5.4%. Customer Deposits increased by 4.4% to reach KD 14.4 billion, and Customer Loans and Advances increased by 6.9% to reach KD 15.5 billion at year-end. Net Profit Attributable totalled KD 370.7 million, representing growth of 15.0% on 2017.

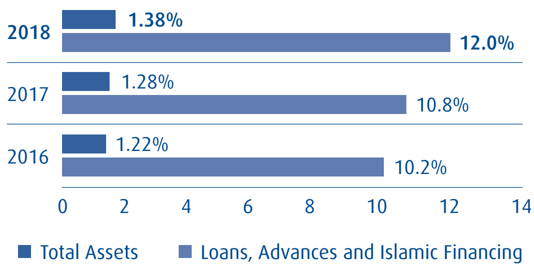
Total Assets, Loans, Advances and Islamic Financing
(KD million)



International Banking Group remained vital to minimising our risk and to diversifying our income in terms of both product and market. The total bottom-line contribution of our international banking operations was 30.4% – compared with 29.4% in 2017. Group Net Operating Income was KD 883.2 million, as compared with KD 822.7 million in the previous year, increasing by 7.4%.

Profitability metrics for the year were equally robust. In 2018, Return on Average Assets was 1.38%, compared to 1.28% in 2017. Meanwhile, Return on Average Equity was 12.0%, compared with 10.8% in 2017.

Return on Average Assets, Return on Average Equity
(%)



As outlined in the Bank's Group strategy, Islamic Banking is a key area of focus for continued growth. The Group achieved this through the operations of our subsidiary, Boubyan Bank. In 2018, Boubyan Bank's Total Assets were KD 4.3 billion – increasing from KD 4.0 billion in 2017. Net profits reached KD 56.2 million, representing a year-on-year growth of 17.9%. Boubyan Bank's Board and management continue to benefit from the direct support of NBK's senior leadership and directors.

Consumer Banking Group (CBG)

In 2018, CBG maintained its leadership position and relevance to customers by enhancing its digital offering and through effective acquisition and retention efforts. The business' activities were centred on 3 key objectives:

1. Secure NBK's future growth by focusing on the youth (Shabab) and affluent customer segments, thereby maintaining our domestic leadership position
2. Maintain leadership in digital banking by launching new digital services and rolling-out the digital transformation of our traditional branches
3. Deliver on the 'product-segment continuum', with a focus on target segments supported by new products, services and a value proposition in line with customer needs

Revenue growth

Given the rising interest rate environment, CBG increased its focus on liabilities. In addition, consumer loans became a better-performing product through a focus on higher ticket sizes and improved acquisition. CBG's revenue growth was driven by Net Interest Margins (NIMs), fees and charges.

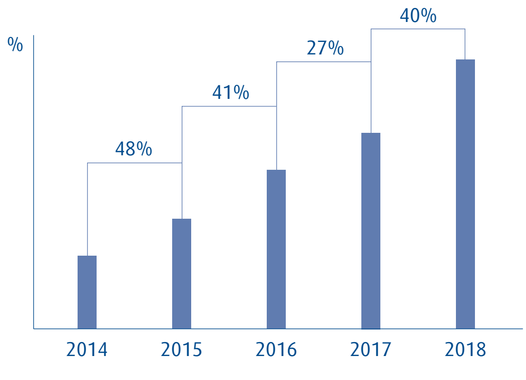
Banking channels

The Bank has 68 branches in the country, with over 12,000 POS terminals including over 7,000 contactless POS terminals – an unrivalled footprint in the local market. We have experienced increasing adoption of contactless POS terminals, resulting from their ease of use for customers and merchants. NBK has the largest ATM network in Kuwait, operating 307 ATMs, of which 97 are CDMs.

We continue to experience high growth and adoption in digital transactions, coupled with decline or stagnation among traditional channels. This is aligned with our strategy of promoting the use of digital channels and for those channels to be driven largely by a mobile first approach. In 2018, we achieved strong growth in mobile transactions, which increased by 40% Y-o-Y.

Meanwhile, CBG's call centre is the largest financial call centre in Kuwait and has been successfully transitioning from a service centre to a sales and service channel.

Annual growth in mobile banking transactions



Human capital

NBK has been at the forefront of promoting Kuwaiti talent and in 2018 maintained its focus on developing Kuwaiti human capital. We are one of the largest recruiters in the country and our Talent Management Department ensures that employees are given the right type of training and opportunities to deliver to the best of their abilities. In the course of the year we provided several trainings across Products, Systems, Soft Skills and Leadership Development.

Technology and digitisation

Given that Kuwait has a young population, with 63% below the age of 30 and enjoys one of the highest internet and mobile penetration levels in the world, online and mobile banking are essential offerings. Digital transformation sits at the core of CBG's strategy for fulfilling the needs of its target customers

Technology and digitisation have cemented their place at the heart of the CBG strategy. For retail customers, almost any process or transaction that does not relate to credit can be fulfilled online. We are moving towards a complete digital journey, from prospecting to fulfilment, while working to ensure security and regulatory requirements are met.

In diversifying the digital offer, the introduction of the Smart Wealth product in partnership with NBK Capital was an important step

New features launched in 2018 included upgraded mobile banking, video chat through mobile and online banking, selfie-pay, a host of ATM enhancements (including cardless withdrawal with Civil ID or mobile number, NFC and CID updates).

Mobile banking upgrades in 2018 included new services such as an easy registration process, e-payment services (education, telecom, entertainment), quick pay, e-mail and phone number upgrade, managing transfer limits, managing cards during travel, fingerprint login for Android users, and adding beneficiaries. Meanwhile, NBK continued to improve services in branches with the introduction of bulk deposit machines for corporate clients.

In diversifying the digital offer, the introduction of the Smart Wealth product in partnership with NBK Capital was an important step. This will enable our affluent customers to digitally access a wealth management product.

In recognition of our leadership in digital banking products, Global Finance presented three awards to NBK, including Best in Mobile Banking (Consumer, Kuwait), Best Consumer Digital Bank (Kuwait) and Best Mobile Banking App (Consumer, Kuwait). These awards are a testament to both the investment and commitment that we have made towards improving our digital offer and are a direct reflection of the quality of the services that have been added to our platforms.

Innovative customer lifecycle management
The mission of the business unit is to remain with young customers as they grow into adulthood and maturity, as per our promise – 'with you every step of the way'. NBK sustained its marketing leadership through effective use of insights, analytics and media in engaging with customers across segments. Our efforts have paid off, as we have reached our highest ever customer satisfaction rating of 96%.

In seeking new customers, we have widened our range of products – along with the benefits that come with them – with an emphasis on building our consumer base among Kuwait's youth. In terms of value added services, NBK has the largest rewards program in Kuwait with over 850 participating outlets, improving by 16% compared to the previous year. NBK continues to seek worldwide and local partnerships, including online partners to complement and differentiate its service offering for target segments, focusing on the youth and affluent customers.

This has, in part, been achieved by a more tactical approach to our footprint. This has included the availability of walk-in branches within malls – where young people in Kuwait often spend leisure time – as well as at Kuwait City airport's new Terminal 4, where NBK won the retail banking tender to open its 69th branch.

Meanwhile, we have grown the reach of our Shabab youth accounts – for teenage customers – making the benefits more relevant to their interests. As Shabab customers grow older, they will transition to their first salary account with NBK. As of 2018, the opening of a new salary transfer account guarantees a reward of KD 100, reaching up to KD 10,000 or a 0% loan up to KD 10,000.

Private Banking Group
Private Banking Group sustained its position as the leading provider of wealth management services in Kuwait, directly benefitting from an improved level of liquidity among clients to grow its Assets under Management (AuM) and achieve double-digit growth in revenues. In order to meet the demands of increased client liquidity, the product platform was broadened to include opportunities such as discretionary managed ETFs, while growing services in regional and international markets – to meet client requirements overseas.

With many clients having been with Private Banking Group for several generations, continued emphasis has been placed on attracting a younger clientele. Of importance was the introduction of the Smart Wealth service, in partnership with NBK Capital, which provides wealth management products on a digital platform. The younger generation of Private Banking clients are similar to those of other parts of the Bank – as they become increasingly tech-savvy, they look to conduct their banking business via online channels. This is an important driver for the growth of our digital offering, and an essential step towards maximising coverage and improving the banking experience.

With many clients having been with Private Banking Group for several generations, continued emphasis has been placed on attracting a younger clientele

As NBK develops a truly Global Private Banking offer, the launch of CMA-regulated entity NBK Wealth Management in Saudi Arabia was a crucial step in growing the footprint. The business is now fully operational, with AuMs already on board, directly contributing to NBK's unique value proposition. Our Private Banking offer brings to clients a network and products similar to any international bank, in addition to unique regional and local knowledge that assures their trust. Looking ahead to 2019, Saudi Arabia, which holds 50% of GCC wealth, will (via NBK Wealth Management) be a key market for diversifying our client portfolio.

In recognition of the exceptional quality of its offer, NBK's Private Banking Group was announced as Best Private Banking Services in Kuwait by Euromoney and Global Finance. The award shows that NBK Private Banking surpasses global banks operating in the local market, as well as the unrivalled confidence that clients have vested in our offer. In 2018, as in previous years, strong and durable relationships with HNWI clients enabled Private Banking to maintain its leadership, supported by delivery of the highest service quality coupled with innovation in products and solutions to meet the changing needs of customers. Meanwhile, internally, the enhancement of human capital was an essential building block for Private Banking's future growth. Significant effort and investment was put towards relationship management training for the client-facing team, as well as experienced and specialised new hires joining the Bank.


NBK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Corporate Banking Group

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

Corporate Banking Group's priority in 2018 was to maintain its no.1 position in the local market, which it succeeded in achieving, with an overall share of 25%. The business proved adept at sustaining close relationships with past and present clients, which put it in a strong position to secure participation in the biggest ticket financing deals. Given NBK's dominant, and therefore defensive position in the market, 2018 was challenging due to a high level of liquidity among corporates. While some unexpected settlements occurred, Corporate Banking was able to retain market share through its role in a number of large transactions – including supporting the expansion of a major industrial group into Saudi Arabia and Bahrain, and financing for infrastructure development deals in Kuwait. Meanwhile the Foreign Corporate business ended the year ahead of budget on both asset growth and its loan portfolio.

Corporate Banking Group's priority in 2018 was to maintain its no.1 position in the local market, which it succeeded in achieving, with an overall share of 25%

Financing highlights

While 2018 was slower than expected in terms of project awards, Corporate Banking sustained a foreign corporate market share of more than 70%, with approximately 35% in Trade Finance. Transaction highlights included participation in a KD 390 million term loan for KIPIC, of which NBK accounted for KD 140 million, NBK Group also signed an agreement to finance Duqm Refinery Project in Oman, The total sourced facility was USD 500 million, along with a series of other smaller deals for the KPC group of companies, with whom the Bank has a close relationship. As the 'house bank' for KPC and its subsidiaries, Corporate Banking benefits from more or less 100% coverage of the local Oil & Gas sector.

Maintaining a competitive edge

Although competition in the market exists, NBK has been largely successful in securing its leadership in serving domestic corporates. Robust and sustainable relationships with clients, an exceptional level of customer service and professional advice sets us apart from our peers. Further value is added by the Bank's regional and international presence, as well as the close relationship with NBK Capital, to provide a more holistic range of financing and investment opportunities to clients.

Products, services and customer acquisition

As with other business units, a key focus area for Corporate Banking Group in 2018 was the introduction or development of technology-based services, many of which are in the process of being upgraded. Expansion into the midsize corporate segment was another key achievement for the year – supported by a dedicated sales team – with NBK now having attracted more than 100 such clients within 24 months. Meanwhile, Corporate Banking worked on improving the diversity of its income base, particularly targeting fee income through Trade Finance and other Transaction Banking products.

Looking ahead, Corporate Banking Group will continue to seek growth from increased transaction volumes in the local market – serving both current and new clients – with the expectation of benefitting from a healthy pipeline in the Oil & Gas sector, in which the Bank's competitive advantage is most pronounced, and for which substantial CAPEX has been earmarked by Kuwait's economic development programme. In the current environment, infrastructure, housing and economic city projects will also provide compelling financing opportunities.

Group Treasury

NBK Group Treasury's mission is focused on providing the highest quality products and services to both internal and external clients, while generating profits without straying outside of the Bank's risk appetite. In terms of liquidity management, Treasury's principal objectives are to diversify the Bank's available funding and to extend the duration of its liabilities.

Treasury Group reported robust performance in 2018, and despite there being no sizeable transactions compared with 2017, ended the year in line with budget. Solid progress was made on trading, albeit with limited flows from the corporate side, and market volatility was sufficiently healthy for trading activity. Forward deals in FX trading were particularly robust, with the cost of hedging for clients having reduced considerably.

NBK's five-year bond issued in 2017, as part of a USD 3 billion GMTN programme, traded well, with the support of the strong performance of the sovereign. However, as interest rates increased, the cost of funding in the local market has generally gone up, although partially offset by a high level of liquidity. The Bank has continued to find new sources of funding – in terms of both geography and type – which has worked towards improving our funding diversification.

Diversification of funding was generally a theme for Group Treasury in 2018 – with an eye on growing the global client base

In that regard, the international Treasury business in Bahrain performed particularly well, with the Yankee CD programme in New York also delivering strong results. Diversification of funding was generally a theme for Group Treasury in 2018 – with an eye on growing the global client base, accessing a wider range of currencies, maintaining solid ratings for the Bank and ensuring a high level of liquidity to enable the judicious selection of partners.

In parallel with efforts to upgrade technologies and systems across the Bank, Treasury was successful in introducing an electronic trading product, giving top corporate clients access to NBK's proprietary FX trading platform. Upgrades were also made to the Treasury booking system, with a long-term process ongoing to replace the system across regional and international locations.

With a view to 2019, Treasury Group will continue to build on its efforts to attract new talent to the business, while consolidating the training programmes that are offered to employees. A number of these programmes are at more senior levels, focused on managerial skills, while others focus on technical development.

Meanwhile, the business is exploring options for introducing more hedging solutions for clients, especially for foreign corporates entering Kuwait to participate in development projects, who are particularly looking to hedge Kuwaiti dinars against the US dollar. Further debt issuance will depend mostly on market pricing and need, on the basis that if projects require it there may be a case for long-term funding.

International Banking Group (IBG)

NBK's international presence is a key differentiator, with the extension of its established MENA franchise enabling the provision of a more wide-reaching set of services. Within MENA, NBK focuses on growing its business by attracting new Corporate and Private Banking customers. Beyond MENA, the Bank concentrates on serving the needs of regional Corporate, Governmental institutions and Private Banking customers that are active internationally, while developing activity with international companies that have business or trade linkage with our MENA operations.

In 2018, performance was strong. IBG grew its Total Assets to KD 9.8 billion, an increase of 7.5% on 2017 and contributed 30.4% to NBK Group's Net Profit. IBG's growing scale and footprint is facilitating a higher level of profitability, with double digit growth across most metrics, while its diversification strategy mitigated risk as certain geographies came under pressure. Challenges in MENA markets included tighter credit spreads, along with the problem of excess liquidity, which increased despite a series of Fed rate hikes.

Markets in focus

This year in Egypt, a strong emphasis was placed on building the quality and reach of the Consumer Banking business, to diversify in terms of both income and operations. The initiative was largely successful, with the market performing better for NBK than in 2017, despite local challenges such as inflation. Meanwhile, our business in China took on greater importance, supporting growing Chinese investment and trade in MENA, and enhancing existing exposure through closer interaction with parent companies in China.

In Saudi Arabia, NBK was granted approval to establish 2 further branches for commercial banking activities, and the CMA-regulated NBK Wealth Management business. IBG's efforts were accordingly focused on establishing and building the local branch infrastructure – including IT, as supported by the Bank's digital transformation programme – as well as hiring staff with the requisite experience and skills to run a successful wealth management franchise and grow further the existing wholesale banking business. In France, NBK's Paris office was converted into a full subsidiary as a conservative and long-term positioning no-matter how Brexit ends up, while in London both Real Estate lending and Treasury operations continued to perform strongly. On the Treasury side, Singapore and Bahrain also emerged as top-performing markets.


KUWAIT

Maintaining an effective strategy

In many ways, 2018 can be characterised as a year of 'more of the same', with IBG pursuing a broadly similar strategy that was successfully delivered in 2017. The diversity of the International Banking portfolio remains essential for mitigating risk and improving income opportunities, while the strength of NBK's brand and credit rating are essential buttresses against macroeconomic headwinds and market competition. At the same time, IBG continued to pursue and build upon a cross-selling culture between segments and geographies, removing obstacles to connectivity and broadening the opportunity set.

Identified future growth markets for IBG include Egypt – where the focus will be on Corporate Banking, Consumer Banking and services for GREs; Bahrain – where Treasury and Corporate operations carry most potential; London – where commercial real estate represents an attractive opportunity for our institutional and Private Banking clients; and Singapore – where the Treasury and Financial Institutions business is set to maintain its growth path. Meanwhile, IBG will continue to exploit cross-selling opportunities – across products and geographies – to bolster the truly global nature of the business by providing a genuinely international set of services to customers, and to complement and support Kuwait home market activity.

IBG's growing scale and footprint is facilitating a higher level of profitability, with double digit growth across most metrics

NBK Capital

NBK Capital's performance is driven primarily by its Asset Management business, offering a range of in-house managed MENA products to investors, covering most asset classes across the GCC and Middle East. International products and vehicles are offered to investors on a co-managed basis with global partners, covering Real Estate and direct-lending funds among other products. NBK Capital also provides Investment Banking services throughout the region and Brokerage services for its clients.

Asset Management highlights

Asset Management clients are typically institutional investors or HNWIs, who are often serviced in partnership with Private Banking Group. As at 31 December 2018, NBK Capital's total AuM reached USD 6.3 billion. In the liquid business, which includes money market funds, fixed income and equities strategies, NBK Capital had a solid year, adding AuMs to reach almost USD 3.4 billion. A key focus was on improving flows to fixed income strategies and global liquid exposures, which increased substantially, while maintaining equities AuMs despite volatile market conditions and a widespread capital flight from emerging markets.

The illiquid business/NBK Capital Partners, which includes Private Equity, Real Estate and Mezzanine funds, had a more challenging year – particularly in Saudi Arabia and Turkey, where local macroeconomic conditions created headwinds. Despite these adverse conditions, transactions were successfully completed for both the Private Equity and Mezzanine funds, with an operating highlight delivered by the NBK Capital Mezzanine Fund I, which successfully exited all assets to return capital to investors.

Investment Banking highlights

A major Investment Banking highlight of the year was NBK Capital's lead role in Kuwait's only 2018 IPO, for Integrated Holding Company (IHC), which was 230% oversubscribed at an offer size of USD 200 million on Boursa Kuwait. Meanwhile, NBK Capital maintained its position as the advisor of choice for Kuwait's Oil & Gas sector, advising on KIPIC's KD 390 million term loan, a number of large corporate bond deals, as well as M&A transaction advisory work. Lastly, to close out the year NBK Capital advised on Burgan Bank's KD 100 million 3-yr senior bond offering, which was a first-of-its-kind instrument introduced to enhance bank funding and liquidity requirements.

In addition to the Equity Capital Market (ECM) and Debt Capital Market (DCM) teams, NBK Capital introduced a new business unit called Financing Advisory, to advise clients on optimal financing and capital structures. The unit was launched in 2018 and had a busy year. Financing Advisory is set up to generate improved fee income without reliance on transactions, while positioning NBK Capital to enjoy right of first refusal when a DCM, M&A or ECM deal is contemplated by the client. Through its Financing Advisory unit, NBK Capital was able to secure an offshore mandate with Canada Kuwait Petrochemical Company (a JV between KPC and Pembina Pipeline Company) and is advising on a USD 1.5 billion financing.

Key initiatives

Two new initiatives were of particular importance in 2018. The first was the launch of the CMA-regulated NBK Wealth Management (WWM) in Saudi Arabia, which supports NBK Capital in its broader objective to become the Group's investment product design platform, product manager and asset manager for clients globally. The business' operations in Saudi Arabia have now commenced, with staffing of the Jeddah and Riyadh offices partially complete, and AuMs already secured. While NBKWM is essentially a wealth management business, NBK Capital's objectives are to be the product provider and service augmenter, developing Saudi-specific products that will invest in local assets for Saudi clients.

Secondly, NBK Capital has grown its focus on technology. This was evidenced by the launch of the Smart Wealth product. The automated wealth management platform will provide a digital channel for affluent customers of the Bank to manage their investment and wealth management activity and enabling the business to more effectively tap into Kuwait's young population, who in some cases are third and fourth generation clients of the Bank.

NBK Capital maintained its position as the advisor of choice for Kuwait's Oil & Gas sector

Operations & IT

Operations & IT are at the core of NBK's strength as an institution. They make our daily activities possible, facilitate a customer-centric offer, ensure regulatory compliance and high standards of Corporate Governance, and – perhaps most importantly – guarantee the security and integrity of data.

Operations highlights

Group Operations & IT highlights included significant investment in projects, among which was a new mobile banking platform for Egypt, Iraq, Bahrain, Jordan and UAE. Moreover, in Iraq, a new data centre was established to host the core banking system, and for the NBK Wealth Management business in Saudi Arabia, IT implementation and software roll-out was delivered for Riyadh and Jeddah. At the Group's new Tier 3 data centre, the migration of applications supporting markets including Kuwait, Bahrain, UAE, Jordan and Iraq began and will continue into 2019. Additionally, work was initiated on the introduction of Robotic Process Automation (RPA) for Operations.

Enhancing customer experience

In line with NBK Group's commitment to delivering a digital transformation that will position it as a bank for the future, IT and Operations had an important role in developing new and improved functionality for the mobile banking app, for example enabling the addition of payment beneficiaries, unifying the log-in process with online banking credentials, introducing Swift GPI tracker and facilitating a 'quick-pay' function. Such improvements are vital to the 'mobile first' approach to our digital banking strategy, and for making the customer experience easier and more rewarding.

Other important initiatives for improving customer experience were the introduction of e-bill payment options for utilities and telecoms across Kuwait; the completion of the NBK digital wallet roll-out, the introduction of the biometric credit card through Mastercard and the introduction of an e-remittance platform with global technology provider RippleNet, enabling instant cross-border payments for customers.

Managing security and risk

Information Security remains a top priority for NBK to ensure a fully-secured environment for customers and stakeholders. We continue to enhance posture for cyber resilience across operating markets, through periodic reviews to assess the effectiveness of Information Security controls. In 2018, NBK implemented multiple technology and process improvement projects for cyber security, to enhance the maturity of its Information Security program. NBK remains committed to compliance with the regulatory requirements of each country it operates in and has aligned its Information Security requirements with industry-leading practices and international standards.

Leading with strategic objectives

NBK's IT and Operations strategy is for the function to grow beyond its role as a pillar for stability and support, to become an agent for change. This will be achieved by the growth of its role into enhancing the Bank's internal and customer-facing capabilities, improving execution (for example in transactions) and creating the foundations to support a fully digital bank. Today, with minimal complaints and customer satisfaction of over 92%, we know that our digital platforms and products are stable and performing, but that's not where we will stop.
We will continue to innovate in our initiatives, and to motivate, build and develop the skills of our staff through specialized programs to support the new technologies that we will introduce. The strength and agility of the IT and Operations function will thereby be critical for the future success of the Bank, as it progresses towards a digital future.

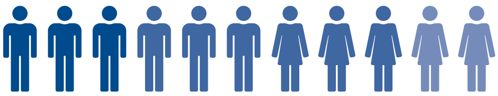
PEOPLE

The quality of our team ensures the quality of services to customers of all types and in all markets.

Recognising the reality that our success as an institution is made possible by the people who work within it – at every level – our Group HR strategy has a place at the heart of our broader strategic plan. The quality of our team ensures the quality of services to customers of all types and in all markets, which is why it is such a high priority as we grow as a Bank.

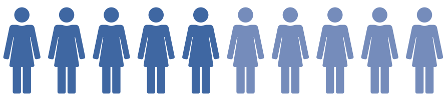
Our people in numbers

6,318 Group employees



53 nationalities

45% female workforce



65% Kuwaiti staff

HR highlights

- Design and development of the NBK Employee Value Proposition ("EVP"), to be rolled out in 2019 and 2020
  - The EVP initiative aims to unify employees' version of the NBK story, building a clearer identity for the Bank to support client relationships and talent acquisition
- An NBK Engagement survey was launched in October 2018 with all the employees invited to participate. The survey was conducted over a period of 3 weeks with an outstanding bank-wide participation rate of 87%. Action plans will be identified for each business unit and contracted for the coming year
- For the third consecutive year, HR facilitated the Most Valuable Team Player Awards, to reinforce and drive positive and motivational behaviour among peers, improving teamwork, productivity, engagement and responsibility. This is a unique approach to recognition, where employees have the chance to nominate colleagues that they consider to be the most valuable team players
- Introduction of core competencies across managerial roles, leading to a framework of common capabilities required of all NBK leaders
- Annual Succession Planning process completed from Level 1 to Level 4 positions
- Completion of annual Headcount Planning process for the 2019 budget cycle
- Introduction and implementation of Employee Development Curriculums across NBK, including:
  - Credit and Relationship Management
  - Trade Finance
  - Internal Audit
- Strategic project approvals, moving to implementation:
  - Compensation Practices: redesigning existing compensation practices to align with market best practice

- Collective Executive Development Programme: for business heads and their deputies, focusing on banking sector changes, banking digitisation and leadership development

A focus on values

The Group HR function places a strong emphasis on the importance of the Bank's core values, following the 'I am NBK' principles in its daily activities, while acknowledging colleagues that are eligible for the Group's monthly 'I am NBK Awards'. The awards scheme provides public recognition for employees who go the extra mile to work according to the Bank's values, encouraging staff to meet and exceed the expectations of their stakeholders. The eight principles of 'I am NBK' are:

Empathy; Excellence; Accessibility & Availability; Communication; Trust; Teamwork; Consistency; Integrity & Respect.

In addition, Group HR has introduced an employee suggestion programme, empowering staff to take an active role in improving HR processes and practices by sharing innovative ideas that they'd like to see implemented by the Bank. This was the first year in which such an initiative was introduced, and we are looking forward to working with staff in pursuit of continuous improvement.

Talent development

In 2018, the Bank ran a wide range of training and professional development programmes, for the benefit of both current and future staff.

Kuwait Graduate Development Programme (KGDP)

In line with our commitment to providing opportunity to the most capable members of Kuwait's graduate generation, we have supported the Central Bank of Kuwait's programme, in partnership with the Kuwait Institute of Banking Studies, which enables banks to annually tap into the talent that exists in the market. Having completed their technical training overseas, candidates join the Bank to complete a phased on-the-job rotation cycle.

Internship training programme

Each year, NBK admits a group of students for summer training, to assist them in fulfilling their future graduation requirements. The main objective is to enable interns to gain practical banking experience while learning more about our business. The programme enables students to complete internship requirements for banking-related degrees, by achieving graduation credits, as well as positioning them to explore future career opportunities at NBK.

Professional development

NBK's professional development efforts remain a source of pride across the Bank. We deliver tailored management-level training to reduce attrition and to improve cohesion in middle management. In 2018, we provided specialised training to Private Banking, with a focus on enhanced relationship management, which was rolled out in the fourth quarter. In addition, efforts were made towards building a new development programme, which will focus on a corporate executive curriculum, aimed at business chiefs, to help create better linkage and collaboration between divisions.

External training opportunities

High-potential team members who have been identified as potential leaders of the future have the opportunity to attend overseas training programmes. These include summits (such as conferences or seminars), as well as technical and behavioural skills training at tier-1 business schools. The aim of these opportunities is to allow staff to improve their skillsets in terms of leadership, behaviour and technical abilities.

High-potential team members who have been identified as potential leaders of the future have the opportunity to attend overseas training programmes

Meanwhile, our highly successful Credit and Relationship Management Training Programme – in partnership with Moody's Analytics – and our School of Trade Finance – in partnership with Euromoney Learning Solutions – both grew in strength. In 2018, a total of 96 employees attended these specialized courses.

SUSTAINABILITY

> "NBK believes that 'sustainability is everyone's responsibility'. We are thereby committed to becoming a leading advocate of, and a national exemplar in, sustainability practices."

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

Customers and shareholders increasingly expect banks to place environmental, social and economic sustainability issues within their approach to risk management, investment, product and service development, employee safety and wellbeing, community engagement, governance and reporting.

NBK's approach to sustainability is constantly evolving, in order to meet and exceed the conditions and expectations that exist in our market. Our sustainability model is closely aligned with the Kuwait National Development Plan – in which we consider ourselves a vital stakeholder – as well as United Nations Sustainable Development Goals (UNSDG), Boursa Kuwait Sustainability Indicators and Global Reporting Initiative (GRI) standards.

Our six sustainability pillars, listed below, are the basis of our sustainability policy and programme:

OUR SIX SUSTAINABILITY PILLARS					
ECONOMIC DEVELOPMENT	CUSTOMERS	CORPORATE GOVERNANCE	PEOPLE	ENVIRONMENT	COMMUINMITY

Supporting economic development

Working closely with the Kuwait National Development Plan (KNDP), NBK supports National Vision 2035, aligning our own economic sustainability goals with those of the country. In direct support of the economic growth of Kuwait, we continue to play a vital role in financing Public-Private Partnership (PPP) projects, acting as a banking sector partner for the government. We have also helped to capacity build for government-related enterprises. This year, Group Human Resources and Foreign Corporate & Trade Finance Group delivered a comprehensive field training programme for Kuwait Oil Company (KOC). The programme trained KOC employees working in treasury, finance and accounting operations. In addition, 11 Kuwait Petroleum Corporation (KPC) staff attended a 4-week theoretical and practical training course delivered by NBK.

Serving our customers

Customer experience, in which we aim for complete satisfaction, is among our highest priorities. We have a number of platforms for customers to easily provide feedback, which triggers an operative and efficient redressal mechanism. For 2018, we were pleased to achieve an overall customer satisfaction score of 96%, as compared with 93% in 2017. Top-scoring customer channels included online and mobile, loans, complaints and staff – all areas where we are dedicated to continuous improvement. The accessibility of our services is also a top priority, because without knowledge of or access to a service, a customer can get no benefit from it. We are therefore constantly upgrading our digital and telephone services to increase their scope and value for customers, while ensuring the accessibility of convenience of our branches for customers with special needs.

Best practice Corporate Governance

The Bank believes that good Corporate Governance is based on a set of values and behaviors that underpin day-to-day activities; provide transparency and fair dealing; and promote financial stability and healthy economic growth that can deliver better outcomes for the Bank's customers and help all Kuwaitis get ahead. In performing its role, NBK's Board is committed to a high standard of Corporate Governance practice, fostering a positive and engaging high performance culture, which encourages values-based leadership to enable the execution of the Bank's strategy and creates a diverse and inclusive workplace.

NBK directly impacts wide-ranging stakeholders in the economy through a positive and stable financial and non-financial contribution. This contribution is made possible by our institutional stability, which is driven by an unwavering commitment to risk management and a high level of capital adequacy. In this regard, we are considered to be Kuwait's most stable bank, and have consistently been ranked among the safest banks in the world.

Respecting and developing people

The Bank employees more than 6,000 staff across 4 continents, all of whom have access to a training and development programme that grows in reach and sophistication every year. Educational opportunities range from leadership and technical training, to anti-money laundering courses.

Our commitment to people extends beyond our own staff, and in particular to students who aspire to work in banking

Diversity and equal opportunities are a high priority for the Bank, and we are proud of employing a workforce that is 45% female – this is a solid achievement in the context of both our sector and the regional labour market. Our commitment to people extends beyond our own staff, and in particular to students who aspire to work in banking. In that regard, 2018 was an important year for the introduction of our summer internship scheme, which offer young Kuwaitis the opportunity to gain first-hand experience of working life at a bank, with a view to one day securing a role with NBK.

Caring for our environment

As a financial institution, we support the judicious consumption of energy and water, responsible waste treatment and disposal, and the limiting of carbon emissions. In 2018, we continued to work towards our goal of achieving sustainable building certification (LEED), and this will soon become a reality when we move our Head Office into new headquarters in Kuwait City, which will operate in accordance with a LEED Gold standard. Other environmental initiatives that the Bank is pursuing include reduced paper consumption – both for our back- and front-office operations. The latter is in evidence in our transition towards paperless banking, with a growing number of products and services delivered via mobile or digital channels. We take every opportunity to reduce, our greenhouse gas (GHG) emissions, with a GHG scope that monitors direct emissions by NBK and indirect emissions by NBK's energy sources.

Giving back to the community

As a prominent member of Kuwait's corporate landscape, we have a duty to serve the community that we work in. Our Corporate Social Responsibility (CSR) programme continues to promote social development, children's care and healthcare in Kuwait, with ongoing and direct investment in the NBK Children's Hospital, which houses a Stem Cell Therapy Unit along with Paediatric Haematology and Oncology facilities. This year, we took our support for the NBK Hospital one step further, by delivering four financial management workshops to hospital staff. A total of 104 staff participated, including doctors, nurses and administrative team members. Our CSR programme complies with the United Nations Sustainable Development Goals (UNSDGs), from UNSDG 1 to UNSDG 7.

Detailed information on our Sustainability initiatives can be found in the 'NBK Sustainability Report 2018'.

GOVERNANCE

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

BOARD OF DIRECTORS

Mr Nasser Musaed Abdullah Al-Sayer
Group Chairman

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

Mr Ghassan Ahmed Saoud Al-Khaled
Vice-Chairman

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

Mr Hamad Abdul Aziz Al-Sager
Board Member

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

Mr Yacoub Yousef Al-Fulaij
Board Member

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

Mr Hamad Mohamed Al-Bahar
Board Member

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

Mr Muthana Mohamed Ahmed Al-Hamad
Board Member

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

Mr Haitham Sulaiman Hamoud Al-Khaled

Board Member

Mr Al-Khaled has been a Board Member at NBK since 2010. He is also a Member of the Board Audit Committee, Board Risk Committee and the Board Corporate Governance Committee. Mr Al-Khaled has been a Board Member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan International Real Estate Company since 2010, where he has been Chairman since 2014. Mr Al-Khaled previously held the following positions at leading telecom operator, Zain: Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer, amongst other responsibilities. He has extensive experience in Strategic Planning, Investments, Mergers and Acquisitions, Corporate Governance and Internal Controls. Mr Al-Khaled holds a Bachelor of Science Degree in Electronic Engineering from Kuwait University.

Mr Loay Jassim Al-Kharafi

Board Member

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

Mr Emad Mohamed Al-Bahar

Board Member

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

EXECUTIVE MANAGEMENT

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

Mr Isam J. Al-Sager

(Group Chief Executive Officer)

Mr Al-Sager joined NBK in 1978, and has been the Group Chief Executive Officer since March 2014. He is a member of various Management Committees. Mr Al-Sager is Chairman of National Bank of Kuwait – Egypt. He serves on the Board of Directors of NBK (International) PLC, United Kingdom, NBK Properties (Jersey) Limited, NBK Trustees (Jersey) Limited and NIG Asian Investment Co. He holds a Bachelor of Science Degree in Business Administration from California State Polytechnic University, USA.

Ms Shaikha K. Al-Bahar

(Deputy Group Chief Executive Officer)

Ms Al-Bahar joined NBK in 1977 and has been the Deputy Group Chief Executive Officer since March 2014. She is a member of various Management Committees. Ms Al-Bahar is the Chairperson of National Bank of Kuwait (Lebanon) and NBK Capital and serves on the Board of NBK (International) PLC, United Kingdom, NBK Global Asset Management Limited, and The Turkish Bank, Turkey. She has been a member of Kuwait's Supreme Council for Planning since August 2017. Ms Al-Bahar has extensive experience in Privatization, Project Finance, Advisory Services, Bond Issues, Build/Operate/Transfer Financing, Initial Public Offerings, Global Deposit Receipts Programmes and Private Placements. She holds a Bachelor of Science Degree in International Marketing from Kuwait University, and has attended specialized programmes at Harvard Business School, Stanford University and Duke University (USA).

Mr Salah Y. Al-Fulaij

(Chief Executive Officer – Kuwait)

Mr Al-Fulaij joined NBK in 1985 and is now the Chief Executive Officer – Kuwait. He is a member of various Management Committees. Mr Al-Fulaij serves on the board of NBK Capital and Watani Financial Brokerage Company. He was the Chief Executive Officer of NBK Capital from 2008 to 2014, and previously Group General Manager of Treasury and Investments Services. Mr Al Fulaij is a graduate of the University of Miami, where he received his Bachelor's Degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business, and Duke University (USA).

Mr Sulaiman Barrak Al-Marzouq

(Deputy Chief Executive Officer – Kuwait & General Manager of Group Treasury)

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

Mr Georges Richani
(CEO International Banking Group)

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

Mr Jim Murphy
(Group Chief Financial Officer)

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

Mr Parkson Cheong
(Group Chief Risk Officer)

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

Mr Emad Al-Ablani
(General Manager – Group Human Resources)

Mr Al-Ablani joined NBK in March 2003 and was appointed as General Manager – Group Human Resources in 2014. He is also a member of various Management Committees. Former appointments at NBK include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager – Recruitment & HR Operations. He has more than 24 years of 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 in Educational Psychology from Kuwait University.

Mr Malek Khalife

(Deputy CEO- Head of Global Private Banking)

Mr. Khalife joined NBK in 2005 and has been heading the Private Banking Group since 2006. Mr. Khalife currently serves as Deputy CEO - Head of Global Private Banking at NBK Group. He is a Board Member of NBK - Lebanon. He is also a member of various Management Committees.
Mr Khalife's last tenure, prior to his current position, was as Director of the Private Banking Representative Office at American Express Bank Limited in Lebanon. He has over 33 years of experience in Private Banking and Financial Markets in the Middle East and Gulf region. Mr Khalife holds a Master's Degree in Economic Sciences from Saint Joseph University, Lebanon.

Mr Mohammed Al Othman

(General Manager – Consumer Banking Group)

Mr. Mohammed Al Othman joined NBK Group 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 programs at Harvard Business School.

Mr Dimitrios Kokosioulis

(Deputy CEO- IT & Operations Group)

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

Mr Mustafa El-Gendi

(General Manager - Corporate Banking Group)

Mr El-Gendi joined NBK in 1979 and has been General Manager, Domestic Corporate Banking at NBK since 2013. He is also a member of various Management and Credit Committees. Mr El-Gendi has extensive experience in all areas of Credit and Corporate Banking Management. He holds a Bachelor of Science Degree in Accounting from Ain Shams University, Egypt and has attended numerous training courses and seminars at London Business School (UK) and Harvard University (USA).

Mr Pradeep Handa

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

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

Dr. Soliman Abdel-Meguid

(General Counsel to the Executive Management)

Dr. Abdel-Meguid joined NBK in 2001, as General Counsel heading the Legal Affairs Group of the Bank. He started his career in the Egyptian judiciary system and teaching at various universities. He has more than 35 years of experience in legal affairs at Kuwaiti banks. Dr. Abdel-Meguid holds a Ph.D. in Law, with distinction, from Cairo University (Egypt). He has been granted the Award of the Egyptian Society of International Law, and has authored several publications in the legal field.

Mr Mohammed Al Kharafi

(General Manager – Head of Operations)

Mr. Mohammad Al Kharafi joined NBK Group from 2001 till 2008 where he progressed to the position of Branch Manager. He re-joined NBK again in 2010 where he assumed many leadership roles and he is currently the General Manager of Operations Group. Additionally, he is a Board Member of the Credit Information Network Company (Ci-Net).
He has extensive experiences in Retail Banking and Operations.
Mr. Mohammad Al Kharafi has a Bachelor's Degree in Business Administration from the Arab Open University. He has participated in a number of Executive Education Programs at Harvard Business School, Chicago Booth School of Business and American University of Beirut.

Mr Mohammed Al Khonaini

(General Manager – Head of Administration Services)

Mr. Mohammad Al Khonaini joined NBK Group in 1979 and has been General Manager Administration Group since 2007. Mr. Al Khonaini assumed many roles in different departments and mostly in Consumer Banking.
He has extensive experience in Consumer Banking and Administration.
Mr. Al Khoniani has a Bachelor's Degree in Political Sciences from Kuwait University. He has participated in a number of Executive Education Programs at Harvard Business School and many training courses.

Mr Carl Ainger
(Group Chief Internal Auditor)

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

Mr Deniz Cengiz
(General Manager – Group Chief Digital Officer)

Mr. Cengiz joined NBK in June 2018. He is currently the Group Chief Digital Officer.
Prior to joining NBK Group, Mr. Cengiz was the Group Director of Digital Banking at BNP Paribas - Istanbul, Turkey.
He has a wide experience for more than 20 years in the field of Digital Banking.
Mr. Cengiz holds a Bachelor's Degree in Civil Engineering from Bogazici University in Istanbul, Turkey.

Dr. Saade Chami
(Group Chief Economist)

Dr. Saade Chami joined NBK Group in 2018, he is currently Group Chief Economist and a member of various Management Committees, in addition to his extensive expertise in economic analysis and capital markets.
Prior to joining NBK Group, Dr. Chami was the Secretary General, Capital Markets Authority in Lebanon for several years. He also served with the International Monetary Fund (IMF) for over 20 years, and served as the advisor for both the Prime Minister's Office and the Ministry of Finance in Beirut, Lebanon.
Dr. Chami holds a Bachelor 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 NBK Group in 2003. He is the Head of Engineering Dept. and works in developing and expanding the banks' network of branches local and overeases. He is also the Engineer in Charge of the NBK New Headquarters project.
Prior to joining NBK Group, 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 (USA). He attended executive management and leadership programmes at Harvard Business School, Wharton School and Dale Carnegie.

Mr Mahmoud Ezzedine
(General Manager – Head of Private Banking Kuwait)

Mr. Mahmoud Ezzedine joined NBK Group in 2011and has been the General Manager for Private Banking Group – Kuwait since 2018. He is a member of various Credit Committees at the Group.
Prior to joining NBK Group, Mr. Ezzedine was the head of Private Banking Dept. in a leading Bank in Lebanon and a financial consultant in Merrill Lynch Bahrain.
He has extensive experience in Private Banking, Investments Products, Credit and Financial Management.
Mr. Ezzedine has a Bachelor's Degree in Business Studies from the Lebanese American University (LAU) in Beirut and a Master's Degree in Business Administration from the University of Hull in the United Kingdom. He attended many executive management and leadership training.

Mr Nikolaos Sfikas
(General Manager – Chief Information Officer)

Mr. Sfikas joined NBK in 2015. He is currently the Head of IT, Information Technology Group.
Prior to joining NBK Group, Mr. Sfikas was the senior manager of ATMs and Cards at Piraeus Bank Group.
He has a wide experience of more than 20 years in the field of Information Technology in the banking sector.
Mr. Sfikas holds a Master's Degree in Business Administration from University of Macedonia - Greece and a Master in Engineering (Electronic and Computer Engineering) from Aristotle University of Thessaloniki-Greece.

Dr. Galal Wafaa
(General Counsel - Head of Legal Affairs Group)

Dr. Galal joined NBK Group in 2015. He is currently the General Counsel and Head of the Legal Affairs Group of the Bank.
Prior to joining NBK Group, 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 in the Industrial Bank of Kuwait. Dr. Galal is also a Professor of Commercial and Maritime law in Alexandria University.
He has a wide experience in Legal Consultations for corporations, banks as well as 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 (S.J.D) from Tulane University (USA).


NBK

CORPORATE GOVERNANCE FRAMEWORK

National Bank of Kuwait Group is aligned with the best international Corporate Governance practices and risk management, to protect stakeholders' rights. During 2018, the Group adhered to all the provisions and determinants of CBK instructions regarding the Corporate Governance rules and standards for Kuwaiti banks, issued in June 2012, as well as the regulatory instructions related to governance in Kuwait and those issued by other countries in which the Group's entities operate.

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

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

During 2018, the Group achieved a number of key accomplishments in the effective implementation of the Corporate Governance Framework. These are as follows:

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

The Board and Committees' composition and duties

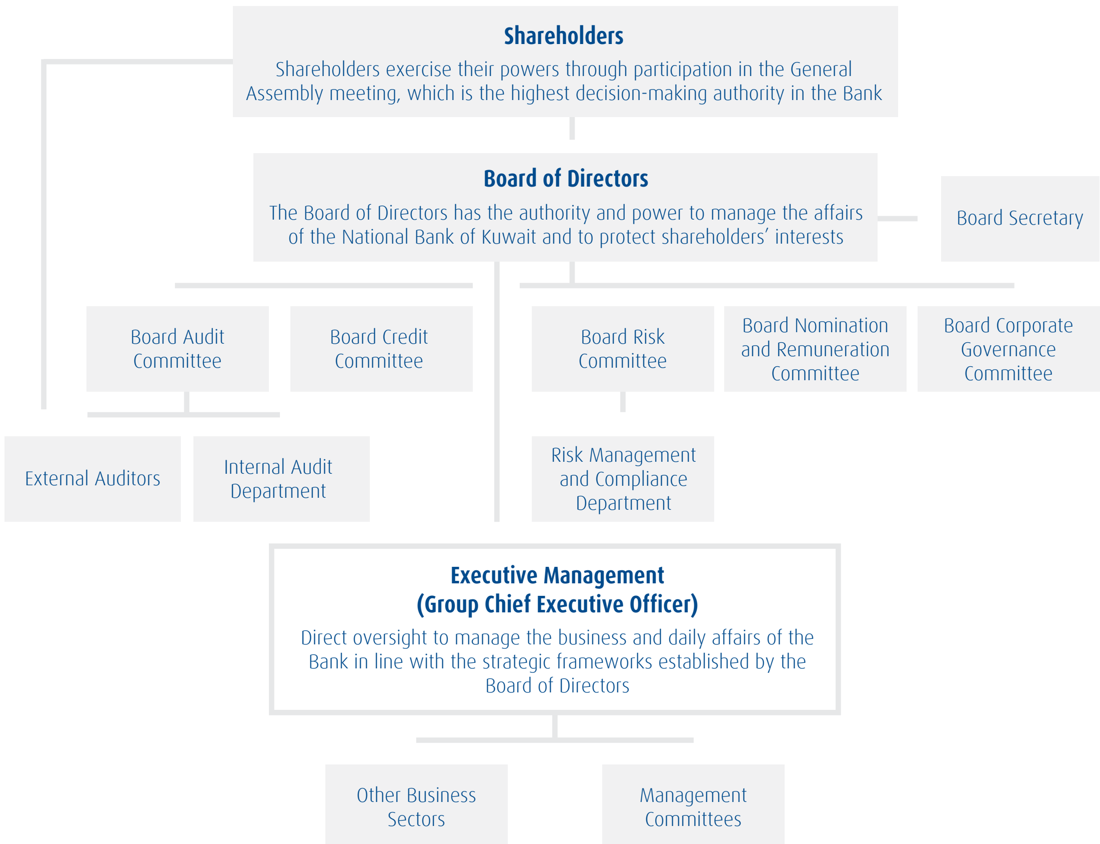
NBK Group's Board of Directors is composed of nine (9) Non-Executive members representing the shareholders. The Board members are elected and appointed by the General Assembly of the Bank, for three (3) years. The Board aims to strengthen the long-term success of the Group and to deliver sustainable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

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

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

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

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



The Board Sub-Committees

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


GROUP RISK

BOARD OF DIRECTORS AND COMMITTEE MEETINGS

The Board of Directors held seven (7) meetings during 2018. Minutes of all meetings have been documented and are included in the Bank's records.

The below table shows names of the Board of Directors, their memberships in Board Sub-committees and number of meetings that reached fifty nine (59) meetings, in addition to the number of meetings attended by each member during the year.

Board of Directors Members	Committee Membership	Board of Directors	Corporate Governance	Nomination and Remuneration	Risk	Audit	Credit
Mr Nasser Musaed Al-Sayer	• Chairman of Board of Directors • Chairman of Corporate Governance Committee	7	2				
Mr Ghassan Ahmed Al-Khalid	• Chairman of Nomination and Remuneration Committee • Chairman of Risk Committee	5		3	4		
Mr Hamad Abdul Aziz Al-Sager	• Chairman of Credit Committee • Member of Corporate Governance Committee	4	1				16
Mr Yacoub Yousef Al-Fulaij	• Member of Corporate Governance Committee • Member of Credit Committee	4	2				21
Mr Hamad Mohammed Al-Bahar	• Chairman of Audit Committee • Member of Nomination and Remuneration Committee	5		3		6	
Mr Muthana Mohamed Al-Hamad	• Member of Corporate Governance Committee • Member of Nomination and Remuneration Committee • Member of Credit Committee	7	2	3			37
Mr Haitham Sulaiman Al-Khaled	• Member of Corporate Governance Committee • Member of Risk Committee • Member of Audit Committee	7	2		4	6	
Mr Loay Jassim Al-Kharafi	• Member of Risk Committee • Member of Audit Committee	3			1	3	
Mr Emad Mohamed Al Bahar	• Member of Nomination and Remuneration Committee • Member of Credit Committee	6		3			29
Total number of meetings		7	2	3	4	6	37

Meetings held by the Board of Directors and its Committees during 2018 were in compliance with Central Bank of Kuwait governance rules and standards, and the Board and Committees' charters in terms of the number of meetings, periodicity, the quorum, and the topics reviewed and discussed by members.

EFFECTIVE IMPLEMENTATION OF THE CORPORATE GOVERNANCE FRAMEWORK

General overview

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

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

The following are the most important achievements of the Board of Directors and its Committees during 2018:

Board of Directors' Key Achievements

The Board of Directors met seven (7) times during the year and the following key duties were accomplished:

- Reviewed and approved the audited financial statements of the Bank
- Discussed the risk appetite and its impact on the Group's strategy
- Reviewed the results of the Internal Capital Adequacy Assessment Process ("ICAAP"), financial stress testing as per the regulatory requirement of Basel (3)
- Discussed and approved general and specific provisions for the local and international loan portfolio
- Approved the amended financial authority matrix for the Senior Credit Committee
- Reviewed and updated the financial authority matrix for the GCEO, the DGCEO, the CEO-Kuwait and his Deputy
- Reviewed the Board of Directors' structures within subsidiaries, on an ongoing basis, ensuring their compliance with the regulatory requirements and the general policy of the Group's Governance Framework
- Followed the progress of the Group's operations through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports prepared by the Financial Group, which clarifies the most important financial indicators of the Bank's budget and profits according to geographical distribution of branches and foreign subsidiaries
- Reviewed and evaluated the effectiveness of the Board and its Committees, in addition to conducting individual self-assessments of the Board and Committee members
- Reviewed the remuneration framework, the mechanism of linking rewards to performance, the level of risk exposure and updated the remuneration policy at Group level
- Oversaw the implementation of the Corporate Governance Framework at Group level and ensured compliance with local regulations in the countries the Group operates in, which are in line with the Group's Corporate Governance Framework
- Reviewed and developed the policies related to Corporate Governance and charters of the Board of Directors and its Committees at the Group level, in order to be commensurate with the Group's organizational structure, and to keep up with applicable international and leading Corporate Governance practices
- Conducted self-assessment on Corporate Governance implementation at Group level and identified the areas that need to be developed
- Reviewed the results of the annual independent evaluation of the Corporate Governance Framework conducted by the Internal Audit Department which highlighted the areas of the Framework that require improvement

- Reviewed the results of the annual independent evaluation of the Internal Control Review, for the Corporate Governance Framework, conducted by the external auditors
- Supervised the Corporate Governance offices and units in the Bank's subsidiaries, followed up their progress through periodic reports presented to the Board Corporate Governance Committee for review and discussion, and subsequently to the Board of Directors
- Approved the increase of NBK authorized capital from KD 600 million to KD 750 million
- Approved the increase of NBK issued and paid up capital by 5% as bonus shares
- Opened the nomination for the Board of Directors membership for the upcoming term and reviewed the submitted Nomination Forms
- Approved the Anti-Money Laundering and Terrorist Financing policy for subsidiaries and the funds in Cayman Islands
- Approved the policies of Information Security Office

Board Committees' Key Achievements

Corporate Governance Committee

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

- Reviewed the implementation of Corporate Governance of NBK Group and its subsidiaries, while providing continuous support to subsidiaries
- Reviewed and amended the Board and the Committee's charters according to supervisory regulations issued in this regard and made recommendations to the Board of Directors
- Reviewed and discussed the results of the internal audit report on the annual evaluation of the Corporate Governance Framework, and the level of compliance with regulators
- Reviewed and discussed the report and the results of the evaluation of internal control systems, and the adequacy of implementing the rules of Corporate Governance at Group level
- Reviewed and updated Corporate Governance policies, in line with the latest regulatory instructions, leading practices, and made recommendations to the Board for approval
- Reviewed the related parties' transactions report, the conflict of interest report, the whistleblowing cases, and discussed the effectiveness of the existing mechanisms
- Supervised the progress of Corporate Governance implementation at Group level
- Reviewed and discussed the annual compliance report on the adequacy of the Corporate Governance implementation at Group level
- Reviewed the disclosures related to Corporate Governance which are presented in the Group Annual Report
- Reviewed the new instructions issued by the regulatory authorities in countries where our subsidiaries are located, and the procedures taken to comply with these instructions
- Reviewed the status of the nomination process for the membership of the Board of Directors for the upcoming term

Nomination and Remuneration Committee

The Committee met three (3) times during the year and the following key duties were performed:

- Supervised the process of the annual assessment of the Board of Directors' performance for the Board, its Committees, and the self-assessment of each member of the Board of Directors for the year 2017
- Conducted the approved, annual training plan for the year 2018 for the Board members, which covered special topics: Anti-Financial Crime, Sanction Compliance and Anti-Money Laundering and Combating Financing of Terrorism
- Reviewed the Internal Audit report on Corporate Governance and the independent evaluation conducted on the Bank's Remuneration framework
- Conducted a comprehensive assessment of the Board of Directors' and its Committees' performance, as well as the performance of each Board member individually
- Reviewed the remuneration policy and presented it for approval to the Board of Directors
- Reviewed the rewards and incentives for 2018 based on the key performance indicators and key risk indicators and put forward recommendations to the Board
- Reviewed the links between remuneration and the Group's long-term objectives
- Reviewed and discussed the succession plan prepared by Group Human Resources and recommended it to the Board for approval
- Reviewed and discussed the phantom shares plan for key personnel, and made recommendations to the Board of Directors

- Reviewed and discussed the latest developments in the banking industry, the related reports in this regard, and the latest related regulatory requirements
- Reviewed the disclosures related to Remunerations presented in the Group Annual Report
- Recommended to the Board of Directors the opening of nominations for the Board of Directors' membership for the upcoming term

Audit Committee

The Committee met six (6) times during the year and the following key duties were performed:

- Reviewed and approved the Group's internal audit annual plan for 2018 for Kuwait, overseas branches and subsidiaries, based on the risk assessment and audit focus areas. Also reviewed the internal audit policy and manual and presented them to the Board for approval
- Co-ordinated with external auditors and reviewed the interim and annual financial statements of the Group, and submitted recommendations to the Board of Directors
- Reviewed and discussed the periodical reports of the Internal Audit Department and the attached reports
- Reviewed and discussed the internal audit summary and considered what has been achieved in the internal audit plan, in comparison to performance during the previous year
- Discussed the results of the report of the annual internal controls review of the Group
- Reviewed the Committee charter and amendments, and submitted recommendations to the Board of Directors
- Reviewed the efficiency and independence of the internal audit function, infrastructure and the overall annual assessment of the function's performance with the Group Chief Internal Auditor
- Discussed aspects of internal audit that relate to information technology and IT security
- Provided recommendations related to the external auditors' fees, with respect to the services provided
- Discussed external audit results related to the internal audit department
- Evaluated the Group Chief Internal Auditor's annual performance, and determined his remuneration
- Reviewed and discussed the internal audit reports for Kuwait, overseas branches and subsidiaries
- Reviewed and approved the updated "Dealing with External Auditors" policy

Risk Committee

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

- Reviewed and discussed the strategy and challenges of Risk Management, the set of periodic risk management reports at Group level and the key risk indicators
- Reviewed a report on the most important activities and achievements of the Group Risk Management and the planned work
- Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process ("ICAAP"), liquidity ratios, the stress testing scenarios and the methods with which they are dealt at Group level
- Reviewed and discussed the risk limit ratios, compared the ratios to the Group's approved risk appetite and the exposure levels of countries in which the Group operates, and discussed those ratios and the changes compared to previous periods
- Reviewed updates on overall economic situations and their impact at the Group level
- Reviewed the updates regarding the implementation of the International Accounting Standards IFRS9
- Reviewed the reports of operational risk, market risk and compliance risk at Group level
- Reviewed and updated senior credit committee authorities and put forward recommendations to the Board for approval
- Reviewed periodic reports on the information systems risks, operational risks, the results of the internal control systems report on regulatory compliance, anti-money laundering and financing of terrorism, and compliance with regulatory requirements of the Foreign Account Tax Compliance Act -FATCA, at Group level
- Reviewed and approved the Group compliance policy, procedures, and the compliance plan for overseas branches, the AML/CFT policy and the IT Risk management procedures
- Reviewed regulatory compliance remarks at Group and subsidiaries level, through self-evaluation results as well as field visits and review processes
- Evaluated the Group Chief Risk Officer's annual performance and determined his remuneration
- Reviewed and updated the organizational structure of Group Risk Management and made recommendations to the Board of Directors
- Pursued the development of the internet security information, its global risks and the future plan for updating the Bank's protection systems

- Reviewed annual treasury limits and excess policy
- Reviewed and discussed the Credit Operation Department plan
- Reviewed and approved the Risk Management policies and procedures related to Credit Risk, Internal Capital Adequacy Assessment policy, Operational Risk policy, Annual Compliance plan, Risk Appetite policy, Market Risk Management policy, Anti-Fraud policy, and made recommendations to the Board for approval
- Reviewed the Board Risk Committee Charter and approved the Charter of the Anti-Fraud Committee and made recommendations to the Board for approval
- Reviewed and approved the business continuity and disaster recovery policy and procedures, and approved the business continuity policy plan
- Reviewed the latest developments of Cyber Security
- Reviewed the new instructions issued by Central Bank of Kuwait on consumer loans and compared them with previous instructions

Credit Committee

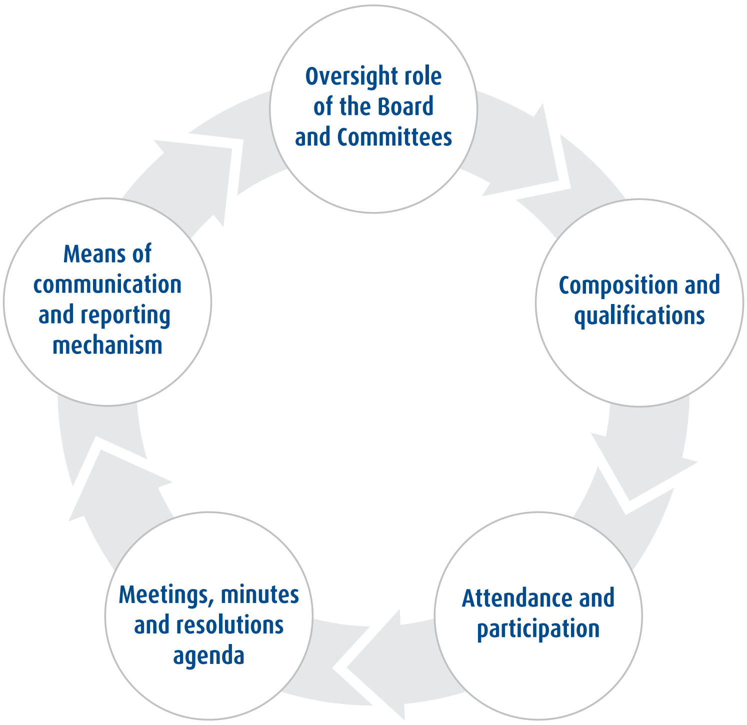
The Committee met thirty seven (37) times during the year and the following key duties were performed:

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

Board of Directors Self-assessment Framework

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

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



Based on the evaluation results, the Committee presented its report to the Board in its meeting held in December 2018.

REMUNERATION POLICY AND FRAMEWORK

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

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

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

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

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

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

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

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

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

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

Remuneration disclosures

The Chairman and the Board of Directors of NBK did not receive any remuneration in the form of fees, salaries or bonuses for their services rendered to the Bank.
The five senior Executives who received the highest remuneration packages, including the Group Chief Financial Officer (GCFO) in addition to Group Chief Internal Auditor (GCIA) and Group Chief Risk Officer (GCRO) received a Group compensation aggregating KD 8,109 thousand for the year ended December 2018.

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

KD 0'000

Employee categories	Number of Employees	Fixed Remuneration	Variable Remuneration			Total
			Cash	Phantom Shares Plan	Other Performance Incentives	
Senior Management	74	8,638	8,058	1,991	522	19,209
Material Risk Takers	23	4,204	6,868	997	135	12,204
Financial and Risk Control	15	1,560	648	415	6	2,629

For disclosure purposes

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

INTERNAL CONTROL ADEQUACY REPORT

Board statement on adequacy of internal control systems

The Board strives consistently to ensure the adequacy and efficiency of the control systems required to protect the Group's operations, whilst ensuring compliance with such internal controls and establishing that those controls provide the necessary protection for the Group against risks from within or outside the Group. The Board ensures an effective internal control systems and Risk Management and Compliance functions are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the Internal Audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board.

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

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

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

Review of the internal control system by an independent third party

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

A summary of the ICR report for the year ended 31 December 2017 was presented to the Board of Directors during 2018. The report did not highlight any significant issues.

INTERNAL CONTROL REVIEW BY EXTERNAL PARTY

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

14 June 2018

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 18 February 2018, we have examined the accounting and other records and internal control systems at Kuwait, branches in Kingdom of Bahrain, Kingdom of Jordan, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL., National Bank of Kuwait – Egypt S.A.E., and the London operations of National Bank of Kuwait (International) PLC (together referred to as "the Group"), which were in existence during the year ended 31 December 2017. We covered all areas of the Group as follows:

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

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

The New York, Singapore and Shanghai branches of National Bank of Kuwait SAK, NBK Private Bank (Switzerland) LTD, Watani Investment Company K.S.C.C. and Watani Financial Brokerage Company K.S.C.C. are subject to evaluation of internal controls and annual supervision by the respective local regulators. A summary of the respective internal control reports is provided in Appendix IV of this report.

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

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

In our opinion, having regard to the nature and size of its operations, during the year ended 31 December 2017, the accounting and other records and internal controls systems, in the areas examined by us, were established and maintained satisfactorily in accordance with the requirements of the Manual of General Directives concerning Internal Control Reviews issued by the Central Bank of Kuwait on 14 November 1996, CBK instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and the CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism with the exception of the matters set out in the report.

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

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ETHICS AND PROFESSIONAL CONDUCT

Values and Ethics

NBK Group continues to apply Corporate Governance values as fundamental principles and an integral part of the culture of the Group. During the year, the Group worked on a number of initiatives that will strengthen the commitment to the values of Corporate Governance and raise the level of awareness of those values at all levels of the Group and related bodies.
NBK Group is committed to achieving the highest levels of governance and has established those values within a number of pillars, which emerged through a set of policies and procedures set forth as follows:

Ethics code

The ethics code is considered one of the most important components of the Corporate Governance framework and is promoted through the code of conduct, which is adopted by the Board of Directors and Executive Management in daily interactions with employees, customers and all of the Group's stakeholders.
This code is subject to periodic review, to keep it up to date with all the latest developments and enhancements in the areas of governance and control of professional conduct. The Board of Directors also oversees the efficient implementation of the charter through the audit and internal control functions, to identify and remedy any gaps.

Conflict of interest

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

Confidentiality

The Board, Executive Management and employees ensure that the Group maintains the confidentiality of information relating to its stakeholders, in accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies.
During 2018, the Group continued to apply measures to maintain the confidentiality of information in accordance with policies and procedures and internal control systems, which require the preservation of confidentiality.

Whistleblowing policy

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

STAKEHOLDER'S RIGHTS

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

Shareholders

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

The Public Institution for Social Security owns 5.53% of NBK's Capital as of 31 December 2018.

Investor Relations

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

Customers

The Group has ensured, since inception that it has established professional and behavioral rules, and provides qualified staff who can optimally serve customers. In addition, the Group continuously ensures that it follows regulatory instructions and is a pioneer in international practices in customer service and protection. NBK has taken the necessary steps to implement the terms of the consumer protection instructions issued recently by the Central Bank of Kuwait, preparing what is required from a policy, before the Board, to enhance the understanding of transparency and disclosure in banking transactions provided by the Bank.

Employees

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

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

Community (Corporate Social Responsibility)

The Group has maintained its progress in projects relating to Corporate Social Responsibility, to foster a sustainable economic and social environment in the community, and regards this as a priority for the Bank. The Group discloses its relevant social activities on its website and in the form of a separate "Sustainability Report 2018", published as an independent report.

GROUP RISK MANAGEMENT

Risk Management and Compliance Structure

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

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

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

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

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

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

Risk Management strategy

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

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

Risk Appetite

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

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

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

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

Risk Management Disclosures: 31 December 2018

I. Capital Adequacy

Introduction

In June 2014, Central Bank of Kuwait (CBK) issued directives on the adoption of the Capital Adequacy Standards (Basel III) under the Basel Committee framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier requirements under the circular issued in 2005 Basel framework (Basel II). The reforms strengthen the quality of capital and introduced several buffer requirements in line with proposals made by the Basel Committee on Banking Supervision (BCBS). The CBK Basel framework consists of three Pillars. Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach". Pillar 2 pertains to the Supervisory Review Process and emphasises the importance of Internal Capital Adequacy Assessment Process (ICAAP) performed by banks. As such, and in compliance with the aforementioned instructions, National Bank of Kuwait S.A.K.P. (NBK) has developed an ICAAP and Stress Testing framework along with its underlying models, policies and procedures. NBK continually enhances its ICAAP and Stress Testing framework to maintain its capital commensurate with the overall risks to which the Bank is exposed. Pillar 3 aims to complement the above capital adequacy requirements under Pillar 1 and Pillar 2 by requiring banks to provide a consistent and understandable disclosure framework which facilitates comparison, thus enhancing the safety and soundness of the banking industry in Kuwait.

1. Regulatory Scope of Consolidation

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

The consolidated financial statements and capital adequacy regulatory reports of the Group have been prepared and consolidated on a consistent basis, save as otherwise disclosed. For additional information on the basis of preparation and basis of consolidation please refer to notes 2.1 and 2.3 of the Group's consolidated financial statements for the year ended 31st December 2018.

The principal subsidiaries of the Group are presented in note 26 of the Group's consolidated financial statements.

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

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

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

- Other significant investments in Banking and Financial entities classified as equities have been subject to the applicable threshold treatment and risk-weighted as prescribed.

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

2. Capital Structure

The Group's regulatory capital comprises:

a) Common Equity Tier 1 (CET1) capital which is considered as the core measure of the Group's financial strength and includes share capital, share premium, eligible reserves, retained earnings and eligible non-controlling interests (net of Regulatory adjustments),

b) Additional Tier 1 (AT1) capital which consists of Perpetual Tier 1 Capital Securities classified as Equity (note 22 of the Group's consolidated financial statements) and certain additional eligible portion of non-controlling interests, and

c) Tier 2 (T2) capital which consists of Subordinated Tier 2 Bonds classified as Debt (note 18 of the Group's consolidated financial statements), the allowed portions of general provisions and certain additional eligible non-controlling interests.

The Bank's share capital as at 31 December 2018 comprised 6,213,319,893 issued and fully-paid-up equity shares (2017: 5,917,447,518).

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

Table 1 Regulatory Capital	31st December 2018	31st December 2017
Common Equity Tier 1	2,478,695	2,362,174
Additional Tier 1 Capital	257,780	253,048
Tier 1 Capital	**2,736,475**	**2,615,222**
Tier 2 Capital	353,724	337,052
Total Regulatory Capital	**3,090,199**	**2,952,274**

3. Capital Adequacy Ratio

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

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

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

Table 2 Minimum Capital Requirement*	CET1	Tier1	Total
31 December 2018**	11.5%	13.0%	15.0%
31 December 2017**	11.5%	13.0%	15.0%

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

From Year-end 2016 the minimum for the Kuwait Banking sector as a whole was raised to 13% from 12.5% and the Group, having been designated as a Domestic Systemically-Important Bank (D-SIB), is required to maintain an additional minimum capital of 2%. Countercyclical Capital Buffer has not been required for the period ended 31st December 2018 in the MCR (nor at 2017).

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

Table 3	CET1	Tier1	Total
Group for 31 December 2018	13.82%	15.26%	17.23%
Group for 31 December 2017	14.24%	15.76%	17.79%

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

Table 4	31 December 2018		
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	18.8%	18.8%	18.8%
NBK (Lebanon) S.A.L. (Lebanon)	28.5%	28.5%	28.5%
NBK Banque Privee (Suisse) S.A. (Switzerland)	31.4%	51.6%	51.6%
Boubyan Bank K.S.C.P. (Kuwait)	14.3%	17.1%	18.2%

	Total
Credit Bank of Iraq S.A. (Iraq)	374.3%
NBK Egypt S.A.E. (Egypt)	19.2%

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

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

All the banking subsidiaries within the Group are in compliance with the minimum capital requirements as applicable under their respective jurisdictions and have not reported any capital deficiencies. Other than restrictions over transfers to ensure minimum regulatory capital requirements are met, there exist no regulatory restrictions which constitute a material limitation on or impediment to the transfer of funds or regulatory capital within the Group.

4. Profile of Risk-Weighted Assets and Capital Charge

The Group's risk-weighted capital requirements for credit, market and operational risks are shown below. The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk-weighted, and capital charge is calculated, in accordance with CBK regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to CBK. The Capital charge in section 4.1, 4.2 and 4.3 below represent the minimum requirement for Kuwait Banking sector at 13%.

4.1. Credit Risk

The total capital charge in respect of credit risk as at 31 December 2018 was 2,103,556 thousand (2017: KD 1,945,596 thousand) as detailed below:

Table 5	KD 000's					
	31 December 2018			31 December 2017		
	Gross credit exposure	Risk-weighted assets	Capital charge	Gross credit exposure	Risk-weighted assets	Capital charge
Cash	217,050	-	-	195,314	-	-
Claims on sovereigns	5,672,863	238,402	30,992	5,733,948	236,693	30,770
Claims on international organizations	100,877	-	-	72,467	-	-
Claims on public sector entities	1,020,827	34,066	4,429	826,901	37,156	4,830
Claims on multilateral development banks	27,958	-	-	28,316	-	-
Claims on banks	6,579,178	1,864,013	242,322	5,744,194	1,536,637	199,763
Claims on corporates	12,063,251	8,536,198	1,109,705	11,948,009	7,987,804	1,038,415
Regulatory retail exposure	5,354,481	4,632,174	602,183	5,030,418	4,357,250	566,442
Past due exposures	117,652	75,647	9,834	118,126	72,950	9,484
Other exposures*	838,573	800,698	104,091	848,605	737,635	95,893
Total	**31,992,710**	**16,181,198**	**2,103,556**	**30,546,298**	**14,966,125**	**1,945,597**

* "Other exposures" above includes an amount of KD 211,460 thousand negative (2017: KD 344,846 thousand negative) representing the amount of general provision in excess of a maximum of 1.25% of Credit Risk-Weighted Assets, which is allowed in arriving at Tier 2 capital.

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

4.2. Market risk

The total capital charge in respect of market risk was KD 37,169 thousand (2017: KD 32,942 thousand) as detailed below:

Table 6	KD 000's	
	31 December 2018	31 December 2017
Interest rate risk	2,434	815
Foreign exchange risk	34,735	32,128
Total	**37,169**	**32,943**

4.3. Operational Risk

The total capital charge in respect of operational risk was KD 190,845 thousand (2017: KD 178,383 thousand). This capital charge was computed by categorising the Group's activities into 8 business lines (as defined in the CBK Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

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

The additional capital requirement in respect of the Group having been designated as a Domestic-Systemically Important Bank (D-SIB) of 2% as at 31 December 2018 amounts to KD 358,703 thousand (2017: KD 331,834 thousand)

5. Risk Management

The complexity in the Group's business operations and diversity of geographical locations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital to derive an optimal risk/return ratio. The Group manages its risks in a structured, systematic and transparent manner through a global risk policy which embeds comprehensive risk management into the organisational structure and risk measurement and monitoring processes.

The Group's Risk Management function is independent of business units; it reports directly to the Board Risk Committee and takes a holistic and objective approach assisting the Board and Executive Management in managing the Group's risks.

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

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

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

- The Board of Directors provides overall risk management direction and oversight
- The Group's risk appetite is proposed by the Executive Committee and approved by the Board of Directors
- Risk management is embedded in the Group as an intrinsic process and is a core competency of all its employees
- The Group manages its credit, market, operational and liquidity risks in a co-ordinated manner within the organisation
- The Group's internal audit function reports to the Board Audit Committee and provides independent validation of the business units' compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework on a Group-wide basis

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

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

The Group regularly assesses the adequacy and effectiveness of its risk management framework in light of the changing risk environment.

5.1. Scope and nature of risk reporting tools

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

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

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

5.2. Risk management processes

Through the comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.
The key risks assumed by the Group in its daily operations are outlined below:

5.2.1. Credit risk

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

5.2.2. Credit risk management strategy

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

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

5.2.3. Credit risk management structure

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

The Group's Executive Committee, chaired by the Group CEO and comprising senior executives from the business divisions, meets regularly to review 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 the Executive Committee and ratified by the Board. Within this framework, limits and approval authorities are exercised by the officers delegated with defined approval authorities.

In compliance with CBK regulations, lending to individual Board Members and related parties is fully secured and monitored by the Senior Credit Committee. Furthermore, facilities granted to them are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board of Directors in line with the relative authorities from the Shareholders' General Assembly.
Country limits are determined based on the outlook of economic and political factors, along with the review of reports by recognised and creditable market sources and application of local business and market knowledge. Significant limit exposures are subject to periodic approval by the Board of Directors or the Board Credit Committee.

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

5.2.4. Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:

1. Board Credit Committee
2. Senior Credit Committee
3. International Credit Committees (Senior and Management)
4. Management Credit Committee (for small- and medium-sized enterprises).

- The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation and contractual covenants.

5.2.5. Key features of consumer credit risk management

- Credit risk management oversees the "consumer" segment through an independent unit directly reporting to Group Risk Management but working in tandem with the Consumer Banking business.
- Consumer Credit Risk Management functional areas are aligned with key concepts of Risk Management, namely, Governance, Control, Measurement and Reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, the consumer business lending group (i.e., underwriting) is responsible for adherence to the credit policies, controls and processes. As second line of defence, the Consumer Credit Risk Management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- Credit risk "scorecard" models (such as Instalment Loan "Applicant" models) have been used to facilitate underwriting and monitoring of credit facilities to customers. Applicant "scoring" models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureaus, particularly Kuwait Credit Bureau statistics, to assist in assessing an applicant's ability to repay and the probability of default. These models are reviewed and refined continually.

5.2.6. Group credit risk monitoring

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

Credit risk is monitored on an ongoing basis with regular formal monthly and quarterly reporting to ensure senior management awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Cross-border exposures are controlled by senior management in charge of relevant branches or subsidiaries and monitored by the central credit risk management function.

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

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

5.2.7. Group credit risk mitigation strategy

Portfolio diversification is a cornerstone of the Group's credit risk mitigation strategy which is implemented through customer, industry and geographical limit structures.

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

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

5.2.8 Management of credit collateral and valuation

The main types of collateral accepted by the Group include:

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

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

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

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

Table 7	KD 000's					
	31 December 2018			31 December 2017		
	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	217,050	-	-	195,314	-	-
Claims on sovereigns	5,672,863	1,043	-	5,733,948	-	-
Claims on international organizations	100,877	-	-	72,467	-	-
Claims on public sector entities	1,020,827	15	-	826,901	782	-
Claims on multilateral development banks	27,958	-	-	28,316	-	-
Claims on banks	6,579,178	-	1,487,193*	5,744,194	-	1,573,097*
Claims on corporates	12,063,251	1,564,634	-	11,948,009	2,091,934	-
Regulatory retail exposure	5,354,481	115,458	-	5,030,418	90,085	-
Past due exposures	117,652	8,329	-	118,126	14,128	-
Other exposures	838,573	-	-	848,605	-	-
Total	**31,992,710**	**1,689,479**	**1,487,193**	**30,546,298**	**2,196,929**	**1,573,097**

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

STRATEGIC REVIEW

GOVERNANCE

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5.2.9. Gross, average and net credit exposures

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

Table 8	KD 000's					
	31 December 2018			31 December 2017		
	Gross credit exposure	Funded exposure	Unfunded exposure	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	217,050	217,050	-	195,314	195,314	-
Claims on sovereigns	5,672,863	5,647,805	25,058	5,733,948	5,701,498	32,450
Claims on international organizations	100,877	100,877	-	72,467	72,467	-
Claims on public sector entities	1,020,827	983,988	36,839	826,901	781,271	45,630
Claims on multilateral development banks	27,958	27,958	-	28,316	28,316	-
Claims on banks	6,579,178	4,607,669	1,971,509	5,744,194	3,869,721	1,874,473
Claims on corporates	12,063,251	9,384,349	2,678,902	11,948,009	9,338,193	2,609,816
Regulatory retail exposure	5,354,481	5,293,683	60,798	5,030,418	4,970,934	59,484
Past due exposures	117,652	117,652	-	118,126	118,126	-
Other exposures	838,573	838,573	-	848,605	848,605	-
Total	**31,992,710**	**27,219,604**	**4,773,106**	**30,546,298**	**25,924,445**	**4,621,853**

Table 9 Average Credit Exposures	KD 000's					
	31 December 2018			31 December 2017		
	Average credit exposure*	Funded exposure	Unfunded exposure	Average credit exposure*	Funded exposure	Unfunded exposure
Cash	211,351	211,351	-	201,732	201,732	-
Claims on sovereigns	5,761,781	5,733,365	28,416	5,262,922	5,238,324	24,598
Claims on international organizations	88,218	88,218	-	47,581	47,581	-
Claims on public sector entities	955,974	917,165	38,809	816,269	775,581	40,688
Claims on multilateral development banks	42,774	42,774	-	29,656	29,656	-
Claims on banks	6,355,001	4,361,394	1,993,607	5,947,959	4,008,024	1,939,935
Claims on corporates	12,046,358	9,334,555	2,711,803	11,900,728	9,428,383	2,472,345
Regulatory retail exposure	5,216,089	5,155,494	60,595	4,886,936	4,828,470	58,466
Past due exposures	114,513	114,513	-	114,260	114,260	-
Other exposures	929,272	929,272	-	738,531	738,531	-
Total	**31,721,331**	**26,888,101**	**4,833,230**	**29,946,574**	**25,410,542**	**4,536,032**

* Based on quarterly average balances

Table 10 Net Credit Exposures	KD 000's					
	31 December 2018			31 December 2017		
	Net credit exposure	Funded exposure	Unfunded exposure	Net credit exposure	Funded exposure	Unfunded exposure
Cash	217,050	217,050	-	195,314	195,314	-
Claims on sovereigns	5,652,470	5,647,805	4,665	5,709,351	5,701,498	7,853
Claims on international organizations	100,877	100,877	-	72,467	72,467	-
Claims on public sector entities	1,012,132	983,988	28,144	817,121	780,488	36,633
Claims on multilateral development banks	27,958	27,958	-	28,316	28,316	-
Claims on banks	5,612,785	4,620,876	991,909	4,834,813	3,869,721	965,092
Claims on corporates	9,178,296	7,852,411	1,325,885	8,608,004	7,316,477	1,291,527
Regulatory retail exposure	5,207,307	5,192,872	14,435	4,908,753	4,881,105	27,648
Past due exposures	109,323	109,323	-	103,997	103,997	-
Other exposures	838,573	838,573	-	848,605	848,605	-
Total	**27,956,771**	**25,591,733**	**2,365,038**	**26,126,741**	**23,797,988**	**2,328,753**

As at 31 December 2018, 41% (2017: 41%) of the Group's net credit risk exposure was rated by External Credit Assessment Institutions (ECAIs) recognised for the purpose, as detailed below:

Table 11 Net Credit Exposures	KD 000's					
	31 December 2018			31 December 2017		
	Net credit exposure	Rated exposure	Unrated exposure	Net credit exposure	Rated exposure	Unrated exposure
Cash	217,050	-	217,050	195,314	-	195,314
Claims on sovereigns	5,652,470	4,956,106	696,364	5,709,351	5,137,732	571,619
Claims on international organizations	100,877	-	100,877	72,467	-	72,467
Claims on public sector entities	1,012,132	4,866	1,007,266	817,121	5,061	812,060
Claims on multilateral development banks	27,958	13,209	14,749	28,316	13,339	14,977
Claims on banks	5,612,785	5,455,198	157,587	4,834,813	4,629,371	205,442
Claims on corporates	9,178,296	1,018,555	8,159,741	8,608,004	964,440	7,643,564
Regulatory retail exposure	5,207,307	-	5,207,307	4,908,753	-	4,908,753
Past due exposures	109,323	-	109,323	103,997	-	103,997
Other exposures	838,573	-	838,573	848,605	-	848,605
Total	**27,956,771**	**11,447,934**	**16,508,837**	**26,126,741**	**10,749,943**	**15,376,798**

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

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

Table 12 KD 000's

31 December 2018	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	160,907	1,352	54,791	-	-	217,050
Claims on sovereigns	4,757,308	656,191	183,466	75,898	-	5,672,863
Claims on international organizations	-	-	-	100,877	-	100,877
Claims on public sector entities	1,010,591	-	9,732	504	-	1,020,827
Claims on multilateral development banks	27,958	-	-	-	-	27,958
Claims on banks	3,177,297	371,028	1,714,333	1,266,087	50,433	6,579,178
Claims on corporates	9,807,419	472,655	898,566	640,716	243,895	12,063,251
Regulatory retail exposure	5,344,455	819	8,905	51	251	5,354,481
Past due exposures	115,629	-	1,810	213	-	117,652
Other exposures	653,668	9,154	125,790	33,736	16,225	838,573
Total	25,055,232	1,511,199	2,997,393	2,118,082	310,804	31,992,710

KD 000's

31 December 2017	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	137,409	1,252	56,653	-	-	195,314
Claims on sovereigns	4,623,665	891,163	159,569	59,551	-	5,733,948
Claims on international organizations	-	-	-	72,467	-	72,467
Claims on public sector entities	816,779	-	10,122	-	-	826,901
Claims on multilateral development banks	28,316	-	-	-	-	28,316
Claims on banks	2,419,657	312,727	1,923,399	1,035,791	52,620	5,744,194
Claims on corporates	9,818,513	524,533	839,010	548,305	217,648	11,948,009
Regulatory retail exposure	5,023,857	359	5,742	3	457	5,030,418
Past due exposures	113,439	-	4,005	682	-	118,126
Other exposures	621,240	8,736	79,808	29,987	108,834	848,605
Total	23,602,875	1,738,770	3,078,308	1,746,786	379,559	30,546,298

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

Table 13	KD 000's			
31 December 2018	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	217,050	-	-	217,050
Claims on sovereigns	2,473,845	997,144	2,201,874	5,672,863
Claims on international organizations	100,877	-	-	100,877
Claims on public sector entities	306,076	48,162	666,589	1,020,827
Claims on multilateral development banks	908	-	27,050	27,958
Claims on banks	3,555,549	732,255	2,291,375	6,579,179
Claims on corporates	4,306,844	2,422,452	5,333,954	12,063,250
Regulatory retail exposure	234,092	430,616	4,689,773	5,354,481
Past due exposures	117,652	-	-	117,652
Other exposures	216,946	38,145	583,482	838,573
Total	11,529,839	4,668,774	15,794,097	31,992,710

	KD 000's			
31 December 2017	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	195,314	-	-	195,314
Claims on sovereigns	2,861,424	1,696,052	1,176,472	5,733,948
Claims on international organizations	72,467	-	-	72,467
Claims on public sector entities	238,729	483,830	104,342	826,901
Claims on multilateral development banks	-	-	28,316	28,316
Claims on banks	3,309,271	1,017,946	1,416,977	5,744,194
Claims on corporates	4,678,755	2,084,763	5,184,491	11,948,009
Regulatory retail exposure	220,718	432,924	4,376,776	5,030,418
Past due exposures	118,126	-	-	118,126
Other exposures	183,775	30,041	634,789	848,605
Total	11,878,579	5,745,556	12,922,163	30,546,298

5.2.10. Impairment expected credit Loss and/or Provisions

Impairment of financial assets other than credit facilities

The Group recognises Expected Credit Losses (ECL) under IFRS 9 on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to Expected Credit Losses.

Impairment of 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 shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines dated 25th December 2018, and the provisions required by the CBK instructions of December 1996 since amended in 2007. Refer Notes of the Group's consolidated financial statement for further details.

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits. A credit facility is considered as "past-due and impaired" if the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

"Past due" and "Past-due and impaired" facilities are managed and monitored as "irregular facilities" and are classified into the following four categories which are then used to guide the provisioning process:
then used to guide the provisioning process:

Category	Criteria
Watchlist	Irregular for a period up to 90 days (inclusive)
Substandard	Irregular for a period between 91 and 180 days (inclusive)
Doubtful	Irregular for a period between 181 days and 365 days (inclusive)
Bad	Irregular for a period exceeding 365 days

The Group may also include a credit facility in one of the above categories based on management's judgement of a customer's financial and/or non-financial circumstances.

The Group's impaired loan portfolio as at 31 December 2018 was KD 240,753 thousand (2017: KD -214,092 thousand) against which a specific provision of KD 112,024 thousand (2017: KD 104,476 thousand) has been made, as detailed below:

Table 14

	KD 000's		
31 December 2018	Past due and impaired financing	Related specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	-	-	-
Claims on corporates	111,001	35,844	(255,501)
Regulatory retail exposure	110,693	76,180	(20,737)
Total	**221,694**	**112,024**	**(276,238)**

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

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

Table 15	KD 000's				
31 December 2018	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	220,857	-	515	322	**221,694**
Specific provision	111,509	-	515	-	**112,024**

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

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

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

The Group's total provision as at 31 December 2018 was KD 538,186 thousand (2017: KD 645,104 thousand) inclusive of a general provision of KD 414,984 thousand (2017: KD 534,632 thousand) as detailed below:

Table 16	KD 000's	
	31 December 2018	31 December 2017
Claims on sovereigns	1,581	1,920
Claims on banks	9,621	5,457
Claims on corporates	344,876	469,983
Regulatory retail exposure	58,906	57,272
Total	**414,984**	**534,632**

The total general provision above includes KD 30,016 thousand (2017: KD 28,745 thousand) relating to "non-cash" facilities in accordance with CBK regulations.

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

Table 17	KD 000's					
	Middle East and North Africa	North America	Europe	Asia	Others	Total
31 December 2018	371,087	3,086	5,548	2,453	2,794	**384,968**
31 December 2017	493,390	3,347	5,034	1,635	2,481	**505,887**

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

5.3 "Market" risk

"Market" risk is defined as the potential loss in value of financial instruments or contracts or portfolio of instruments/ caused by adverse movements in market variables such as interest rates, foreign exchange rates, equity prices, volatility, spreads etc.

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

- Implementation of Market Risk Management Framework
- Well-defined processes and strong and effective controls
- Recognition of Market Risk as inherited to Bank's Business Model and Macro-Economic Environment.
- Clear segregation of "front", "back" and 'middle' office duties.
- Bank's approach to accept, limit and increase Market Risks
- Regular and effective monitoring and reporting of exposures and risk measures
- Regular monitoring of market prices and valuation of financial instruments
- Defined set of internal limits and regular reporting on the adherence to those limits
- Regular independent review of internal controls and limits
- Implementation of adequate infrastructure

5.3.1. Market-risk management framework

The Market Risk Management Framework consists of Governance, Identification & Measurement, Management & Limit Setting as well as Reporting/ Management information.

The Board of Directors (BoD) is ultimately responsible for determining and setting the amount of Market Risk that the Bank is exposed to as a result of executing its business strategy through Bank's Risk Appetite. The market risk management framework governs the Group's trading and non-trading related market risk activities. The General Manager of the Treasury Group and General Managers in Overseas locations are responsible for managing trading activities. The management of market risk inherent within the Group's non-trading activities is the primary responsibility of the Group Asset and Liability Executive Committee (ALEC), supported by the regional Asset and Liability Committees.

Group Asset Liability Management (ALM) Unit is responsible for supervising the management of Market Risk exposure. 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 exposures.

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

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

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

The analysis of scenarios shows the impact in the banking book as follows:

Table 18	KD 000's			
	+ 5bp	-5bp	+10bp	-10bp
31 December 2018	2,040	(2,040)	4,080	(4,080)
31 December 2017	2,333	(2,333)	4,666	(4,666)

Under the above assumptions the interest rates move by the same percentage across all maturities, all positions are held to maturity and no corrective action by management is taken to mitigate the impact of interest-rate risk.

In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

The analysis of the Group's total equity investment portfolio is as follows:

Table 19	KD 000's
	31 December 2018
Total Equity Investment	86,574
Of which Quoted Investments (%)	24%

Net gains or (loss) of FVPL classified instruments recognised in Profit & Loss Statement during the period	539
Net gains or (loss) of FVOCI classified instruments recognised in Balance-sheet as at period-end	7,798

Capital requirement of Equity investment portfolio categorized as:

Fair value through Other Comprehensive Income(FVOCI)*	12,138
Fair value through P&L(FVPL)*	3,573

* Based on classification on IFRS9 effective from 1st Jan 2018

All revaluation gains or losses during the year relating to equity investments were recorded in the consolidated statement of financial position. For additional details of the accounting policies related to the valuation of equity holdings, refer to notes 2.15 and 2.16 of the Group's consolidated financial statements.

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

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

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

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

5.3.4. Monitoring of counterparty credit risk

The Group Risk Management function independently monitors counterparty credit risk exposures arising from its derivatives transactions using the concept of Potential Future Exposure (PFE). The PFE is defined as the maximum 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.

5.3.5. Counterparty credit risk

Assignment of credit limits for counterparty credit Exposures

Counterparty credit risk exposure arises from the risk that counterparties are unable to meet their payment obligations under derivative contracts. The allocation of credit limits for derivatives counterparties is provided by NBK's Institutional Banking Division taking into consideration counterparty credit profile, historical financial performance, geographical location, legal jurisdiction and other relevant factors. The credit limits are reviewed on an annual basis and credit exposure is regularly monitored and reported for all derivatives' counterparties.

Policies for securing collateral and credit reserves

In order to reduce counterparty credit risk, NBK selectively enters into Credit Support Annex (CSA) in line with the International Swaps and Derivatives Association, Inc. ("ISDA"), standards. NBK generally accepts primarily cash as collateral from its derivatives counterparties. The Bank has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Through the use of a collateral service agent, daily margining is performed with the appropriate counterparties. Daily valuations for qualified derivatives are compared to those reported by the counterparties. Any disagreement over the valuations is resolved directly with the counterparty. Refer to Note 28 of the Group's consolidated financial statements for further details.

Wrong-Way risk

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

Additional collateral requirements due to credit rating downgrade

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

General disclosure for counterparty credit risk

Table 20	KD 000's	
Derivative Contracts	31 December 2018	31 December 2017
Gross Positive fair value	52,039	24,828
Counterparty netting benefit	(38,441)	(17,933)
Netted current credit exposure	13,597	6,895
Cash collateral (held by NBK)	(13,203)	(169)
Net exposure (after netting and collateral)	394	6,726

Exposure-at-default methodology

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

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

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

Table 21	KD 000's	
	31 December 2018	31 December 2018
Counterparty credit risk (CEM method) for derivatives' counterparties	96,563	64,739
Counterparty credit risk (PFE method) for derivatives' counterparties	10,531	11,283

Notional value of credit derivatives transactions

NBK has no exposure to credit derivatives.

5.4. Operational risk

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

5.4.1. Operational-risk management framework

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

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

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

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

5.5. Liquidity risk

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

The Group applies a prudent mix of liquidity controls which provide security of access to funds without undue exposure to increased costs of funds from the liquidation of assets or aggressive bidding for deposits. Liquidity risk is monitored and evaluated daily to ensure that, over the short term and by major currency, the profile of projected future cash inflows is adequately matched to the maturity of liabilities. The Bank monitors and reports various internal and regulatory liquidity metrices in order to manage and comply with liquidity risk on an on-going basis. Specifically, since 1st Jan 2016 Bank is monitoring and reporting Liquidity Coverage Ratio (LCR) in line with CBK instructions. Refer to the Liquidity Coverage Ratio disclosures available on the website of the Bank for Governance framework, Funding Strategy and LCR ratio results and analysis. Starting 1st Jan 2018, the Bank is monitoring and reporting Net Stable Funding Ratio (NSFR) in line with the CBK instructions. NSFR disclosure is made available in the Bank's website on a quarterly basis.

5.6. Reputation and fiduciary risk

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

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

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

During the year, Assets under Management at the Group increased by 12.8% (2017: 7.7%) to reach KD 4,390 million on 31 December 2018 (2017: KD 3,892 million).

II. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

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

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

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

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

The below table summarises the composition of capital and ratios:

Table 22	KD 000's	
	31 December 2018	31 December 2017
Common Equity Tier 1 capital	2,478,695	2,362,174
Tier 1 capital	2,736,475	2,615,222
Total capital	**3,090,199**	**2,952,274**
Total risk-weighted assets	**17,935,150**	**16,591,706**
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.8%	14.2%
Tier 1 (as percentage of risk-weighted assets)	15.3%	15.8%
Total capital (as percentage of risk-weighted assets)	17.2%	17.8%
National Minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%	9.5%
Tier 1 minimum ratio	11.0%	11.0%
Total capital minimum ratio excluding Countercyclical and D-SIB buffers	13.0%	13.0%
NBK Group Minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer and D-SIB buffer	11.5%	11.5%
Tier 1 minimum ratio	13.0%	13.0%
Total capital minimum ratio excluding Countercyclical Buffer	15.0%	15.0%

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

2. Reconciliation requirements

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

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

Table 23

Steps 1 and 2 of Reconciliation requirements

	KD 000's		
Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31 December 2018	31 December 2018	
Assets			
Cash and short-term funds	2,966,707	2,966,707	
Central Bank of Kuwait bonds	809,871	809,871	
Kuwait Government treasury bonds	872,042	872,042	
Deposits with banks	2,364,242	2,364,242	
Loans, advances and Islamic financing to customers	15,503,402	15,503,402	
from which General Provisions(netted above) eligible for inclusion in Tier 2 capital	203,524	203,524	a
Investment securities	3,678,032	3,678,032	
Investment in associates	31,425	31,425	
of which goodwill deducted from CET1 Capital	2,450	2,450	b
Land, premises and equipment	362,801	362,801	
Goodwill and other intangible assets	578,973	578,973	
of which goodwill deducted from CET1 Capital	398,056	398,056	c
of which other intangibles deducted from CET1 Capital	180,917	180,917	d
Other assets	260,445	260,445	
Total assets	**27,427,940**	**27,427,940**	

STRATEGIC REVIEW

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Table 23

Steps 1 and 2 of Reconciliation requirements	KD 000's		
Item	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31st December 2018	31st December 2018	
Liabilities			
Due to banks and other financial institutions	8,090,484	8,090,484	
Customers deposits	14,388,836	14,388,836	
Certificates of deposit issued	451,128	451,128	
Global medium-term notes	220,124	220,124	
Subordinated Tier 2 bonds	124,768	124,768	
Principal amount recognized in Tier 2 capital	125,000	125,000	e
Other liabilities	451,290	451,290	
Total liabilities	23,726,630	23,726,630	
Shareholders' equity			
Share capital	621,332	621,332	f
Proposed bonus shares	31,067	31,067	q
Statutory reserve	310,666	310,666	g
Share premium account	803,028	803,028	h
Treasury shares	(65,425)	(65,425)	i
Treasury shares reserve	14,010	14,010	j
Other Reserves	1,448,579	1,448,579	
of which Retained Earnings eligible as CET1 Capital	1,315,182	1,315,182	k
of which Proposed Dividend	214,344	214,344	
of which Others eligible as CET1 Capital	(80,947)	(80,947)	l
Equity attributable to shareholders of the Bank	**3,163,257**	**3,163,257**	
Perpetual Tier 1 Capital Securities	210,700	210,700	m
Non-controlling interests	327,353	327,353	
of which Limited Recognition eligible as CET1 Capital	111,205	111,205	n
of which Limited Recognition eligible as AT1 Capital	47,080	47,080	o
of which Limited Recognition eligible as Tier 2 Capital	25,200	25,200	p
Total equity	**3,701,310**	**3,701,310**	
Total liabilities and equity	27,427,940	27,427,940	

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

Table 24

Step 3 of Reconciliation requirements

Relevant row number in Common Disclosure Template		Component of regulatory capital KD 000's	Source based on reference letters of the balance sheet from Step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	621,332	f
2	Retained earnings	1,315,182	k
3	Accumulated other comprehensive income (and other reserves)	1,077,824	g+h+j+l+q
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	111,205	n
6	Common Equity Tier 1 capital before regulatory adjustments	3,125,543	
	Common Equity Tier 1 capital: regulatory adjustments		
8	Goodwill	(400,506)	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(180,917)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(65,425)	i
28	Total regulatory adjustments to Common Equity Tier 1	(646,848)	
29	Common Equity Tier 1 capital (CET1)	**2,478,695**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700	m
31	of which: classified as equity under applicable accounting standards	210,700	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	47,080	o
36	Additional Tier 1 capital before regulatory adjustments	257,780	

Table 24

Step 3 of Reconciliation requirements		KD 000's	
Relevant row number in Common Disclosure Template		Component of regulatory capital	Source based on reference letters of the balance sheet from Step 2
	Additional Tier 1 capital: regulatory adjustments		
44	Additional Tier 1 capital (AT1)	**257,780**	
45	Tier 1 capital (T1 = CET1 + AT1)	**2,736,475**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000	e
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	25,200	p
50	General Provisions included in Tier 2 Capital	203,524	a
51	Tier 2 capital before regulatory adjustments	353,724	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	**353,724**	
59	Total capital (TC = T1 + T2)	**3,090,199**	

III. Leverage

1. Leverage Ratio

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

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

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

The Leverage Ratio for the Group at consolidated level is:

Table 25	KD 000's	
	31 December 2018	31 December 2017
Tier 1 capital	2,736,475	2,615,222
Total Exposures	29,906,685	28,394,001
Leverage Ratio	9.2%	9.2%

2. Leverage Ratio Exposures

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

Table 26	KD 000's	
Total Exposures	**31 December 2018**	**31 December 2017**
On-balance sheet exposures	26,846,517	25,444,831
Derivative exposures	154,283	112,890
Off-balance sheet items	2,905,885	2,836,280
Total exposures	**29,906,685**	**28,394,001**

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

3. Reconciliation

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

Summary comparison of accounting assets vs Leverage Ratio exposure measure

Table 27		
	Item	**31 December 2018**
1	Total consolidated assets as per published financial statements	27,427,940
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure	-
4	Adjustments for derivative financial instruments	154,283
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit-equivalent amounts of off-balance sheet exposures)	2,905,885
7	Other adjustments	(581,423)
8	**Leverage Ratio exposure**	**29,906,685**

IV. Remuneration Disclosures

1. Qualitative Information

a) Board of Directors, Board Nomination and Remuneration Committee

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

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

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

The key responsibilities of the Committee are summarised below:

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

During the year 2018 the Committee reviewed and updated the Remuneration Policy, Succession Planning Manual and its internal charter.

b) Remuneration Policy

NBK Group Remuneration Policy is developed and implemented at the Group level and covers NBK subsidiaries and foreign branches.
NBK Group has a clear Remuneration Policy, instructions and processes, ensuring sound remuneration framework throughout the organisation. To support the Group's ability to recruit and retain the right talents and competences and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.
The Policy aims to support the Group to operate a "total reward" philosophy taking account of all components of financial remuneration
Group policy aims to reward success, not failure, and attempts to align employees' remuneration with its risk framework and risk appetite and is designed to reward competitively the achievement of long-term sustainable performance, attract and motivate the very best people who are committed to a long-term career with the Bank, and who will perform their role in the long-term interests of its shareholders.

In case any provisions of the Remuneration Policy document deviate from any of the local statutory or regulatory requirements, the local statutory and regulatory requirements will take precedence over the provisions of the Remuneration Policy.
The Remuneration Policy defines three major categories for remuneration treatment, governance and disclosures.

First Category: Senior Management
This category includes all employees at the level of Assistant General Manager (AGM) and higher (excluding control functions).
The number of persons in this category as of 31 December 2018 is 74 (2017: 67).

Second Category: Material Risk-Takers
This category includes the Group CEO, his deputy, CEO Kuwait, his deputy and the heads of business functions and their deputies (22 of them are included in Senior Management category) . The Group's core business units are:

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

The number of persons in this category as of 31 December 2018 is 23 (2017: 21).

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

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

The number of persons in this category as of 31 December 2018 is 15 (2017:15).

c) Remuneration Structure and Components

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

* Fixed remuneration:

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

Fixed remuneration includes:

1. Salaries
2. Benefits
3. Other cash allowances

These payments are fixed and do not vary with performance.

* Variable Remuneration (performance-based remuneration):

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

Variable remuneration includes:

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

These payments are fixed and are not linked to performance.

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

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

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

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

d) Risk-Based Remuneration Approach

NBK considers its Group risk profile when determining its annual remuneration pool; the risk profile includes the key risks to which the Group is exposed such as strategic, credit, market, liquidity, and operation risk. The policy ensures adequate linkage between the performance and risk materialisation, loss occurrence and risk appetite of the Group.
The overall variable remuneration pool is determined using a multi-year performance assessment which takes account of relevant risk metrics. The metrics used to determine the pool are linked with performance and key risk indicators; the key risk indicators are designed and customised for each core business function and they are in line with the Group's overall risk strategy.
During the year key risk indicators (KRIs) remain linked to the overall remuneration pool without significant change from last year's KRIs.

The Risk Management and Compliance functions are independent and reporting to the Board Risk Committee.

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

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

e) An Overview on the Key Performance Indicators

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

Examples of Group- level KPIs:

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

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

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

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

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

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

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

f) Remuneration Adjustments

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

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

The Group applies a deferment approach of up to three years and final vesting of these variable components is subject to achieving the long-term performance targets and risk materialisation. Claw-back applies on the non-vested portions in case long-term targets are not met or risk materialises. The claw-back mechanism is applicable on the deferred cash – bonus and phantom shares plan.

This deferred variable remuneration is governed as follows:

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

Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met three times. The total remuneration paid to the Committee members is Nil.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 74 persons and they represent 3.2% of the overall NBK total staff number eligible for variable remuneration for 2018.
3. The total number of persons (Senior Management and Material Risk-Takers) is 75 persons. Their total remuneration for 2018 is KD 19,211 thousand.

4. The number of employees who received sign-on awards during the year is Nil.
5. The total amount of end-of-service benefit paid during 2018 is KD 320 thousand, this is related to 7 persons (Senior Management and Material Risk-Takers).

Senior Management

Table 28

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	8,638	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	8,058	Nil
- Phantom Shares	Nil	1,991
- Others (Note 1)	522	Nil

Material Risk-Takers

Table 29

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	4,204	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	6,868	Nil
- Phantom Shares	Nil	997
- Others (Note 1)	135	Nil

Note 1: This consists of other performance incentives.

Financial and Risk Control

Table 30

Total salaries and remuneration granted during reported period	Unrestricted (KD 000's)	Deferred (KD 000's)
Fixed remuneration:		
- Cash	1,560	Nil
- Phantom Shares	Nil	Nil
Variable remuneration:		
- Cash	637	11
- Phantom Shares	Nil	415
- Others (Note 1)	6	Nil

Note 1: This consists of other performance incentives.

Total remuneration paid as per employee categories

Table 31

Employees category	Number of employees in this category	Grand Total remuneration fixed and variable granted during the reported period (KD 000's)
Senior Management	74	19,209
Material Risk-Takers	23	12,204
Financial and Risk Control	15	2,629

V. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 32

Row number	Common Equity Tier 1 capital: instruments and reserves	KD 000's
1	Directly issued qualifying common share capital plus related stock surplus	621,332
2	Retained earnings	1,315,182
3	Accumulated other comprehensive income (and other reserves)	1,077,824
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	111,205
6	Common Equity Tier 1 capital before regulatory adjustments	3,125,543
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(400,506)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(180,917)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	
11	Cash flow hedge reserve	
12	Shortfall of provisions to expected losses(based on the Internal Models Approach, if applied)	
13	Securitisation gain on sale	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	
15	Defined benefit pension fund net assets	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(65,425)
17	Reciprocal cross holdings in common equity of banks, Fis, and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued share capital(amount above 10% threshold of bank's CET1 capital)	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	

Row number	Common Equity Tier 1 capital: regulatory adjustments	KD 000's
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	
24	of which: mortgage servicing rights	
25	of which: deferred tax assets arising from temporary differences	
26	National specific regulatory adjustments	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	
28	Total regulatory adjustments to Common Equity Tier 1	(646,848)
29	Common Equity Tier 1 capital (CET1)	2,478,695
	Additional Tier 1 capital: instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700
31	of which: classified as equity under applicable accounting standards	210,700
32	of which: classified as liabilities under applicable accounting standards	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	47,080
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	257,780
	Additional Tier 1 capital: regulatory adjustments	
37	Investments in own Additional Tier 1 instruments	
38	Reciprocal cross holdings in Additional Tier 1 instruments	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity(amount above 10% threshold)	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation(net of eligible short positions)	
41	National specific regulatory adjustments	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	Additional Tier 1 capital (AT1)	257,780
45	Tier 1 capital (T1 = CET1 + AT1)	2,736,475

Row number	Tier 2 capital: instruments and provisions	KD 000's
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000
47	Directly issued capital instruments subject to phase out from Tier 2	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	25,200
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	203,524
51	Tier 2 capital before regulatory adjustments	353,724
	Tier 2 capital: regulatory adjustments	
52	Investments in own Tier 2 instruments	
53	Reciprocal cross holdings in Tier 2 instruments	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued common share capital of the entity(amount above 10% threshold)	
55	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions	
56	National specific regulatory adjustments	
57	Total regulatory adjustments to Tier 2 capital	-
58	Tier 2 capital (T2)	353,724
59	Total capital (TC = T1 + T2)	3,090,199
60	Total risk-weighted assets	17,935,150
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.8%
62	Tier 1 (as percentage of risk-weighted assets)	15.3%
63	Total capital (as percentage of risk-weighted assets)	17.2%
64	Institution specific buffer requirement (minimum CET1 requirement plus (a)capital conservation buffer plus (b)countercyclical buffer requirements plus (c)DSIB buffer requirement expressed as a percentage of risk-weighted assets)	11.5%
65	of which: (a) capital conservation buffer requirement	2.5%
66	of which: (b) bank specific countercyclical buffer requirement	-
67	of which: (c) DSIB buffer requirement	2.0%
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.8%

Row number	National Minima	KD 000's
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.5%
70	Tier 1 minimum ratio	11.0%
71	Total capital minimum ratio excluding Counter-cyclical and D-SIB buffers	13.0%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	28,917
73	Significant investments in the common stock of financial entities	49,983
74	Mortgage servicing rights (net of related tax liability)	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	
	Applicable caps on the inclusion of provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	414,984
77	Cap on inclusion of allowances in Tier 2 under standardised approach	203,524
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings- based approach (prior to application of cap)	
79	Cap on inclusion of allowances in Tier 2 under internal ratings-based approach	

2. Regulatory Capital: Main Features Template

The Bank's share capital as at 31 December 2018 comprised 6,213,319,893 issued and fully-paid-up equity shares (note 20 of the Group's consolidated financial statements), and is eligible as Common Equity Tier 1 Capital at Group and Solo level.

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

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

	Coupons/dividends		
16	Fixed or floating dividend/ coupon	Fixed for first 6-year period; thereafter reset every 6 years to a new fixed rate equal to the then six-year USD mid-swap rate plus margin	Fixed Tranche: Fixed for first 5 years and reset thereafter to a new fixed rate for subsequent period Floating Tranche: Floating rate determined semi-annually subject to a cap
17	Coupon rate and any related index	5.75% p.a. Fixed-rate up to (but excluding) 9 April 2021; thereafter reset every 6 years to a new fixed rate equal to the then 6-year USD mid-swap rate plus 4.119% p.a. margin	Fixed Tranche: 4.75% p.a. Fixed for 5 years and reset thereafter to a new fixed rate of the then CBK Discount Rate plus 2.75% p.a. for subsequent period. Floating Tranche: CBK Discount Rate plus 2.50% determined semi-annually subject to a cap of prevailing Fixed Interest Rate plus 1%
18	Existence of a dividend stopper	Yes	No
19	Fully discretionary, partially discretionary or mandatory	Payment of Interest may be cancelled at the sole discretion of the Issuer and the Guarantor Mandatory cancellation upon: - Insufficient Distributable Funds on a consolidated basis - Breach of any applicable capital requirements - Regulatory requirement to cancel	Payment of Interest is mandatory.
20	Existence of step-up or other incentive to redeem	No	No
21	Non-cumulative or cumulative	Non-cumulative	Not applicable
22	**Convertible or non-convertible**	**Non-convertible**	**Non-convertible**
23	If convertible, conversion trigger (s)	Not applicable	Not applicable
24	If convertible, fully or partially	Not applicable	Not applicable
25	If convertible, conversion rate	Not applicable	Not applicable
26	If convertible, mandatory or optional conversion	Not applicable	Not applicable

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

3. Leverage Ratio: Common Disclosure Template

Table 33

	Item	KD 000's
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	27,427,940
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(581,423)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**26,846,517**
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	57,713
5	Add-on amounts for PFE associated with all derivatives transactions	96,570
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**154,283**
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	11,348,221
18	(Adjustments for conversion to credit equivalent amounts)	(8,442,336)
19	**Off-balance sheet items (sum of lines 17-18)**	**2,905,885**
20	**Tier 1 capital**	**2,736,475**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**29,906,685**
22	**Basel III Leverage Ratio**	9.2%

GLOSSARY OF TERMS

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

FINANCIAL STATEMENTS

National Bank of Kuwait's Board of Directors' Report, Independent Auditors' Report and consolidated financial statements for the year ended 31 December 2018.

BOARD OF DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait S.A.K.P. ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2018.

2018 Financial Performance

The Group reported a net profit after non-controlling interests of KD 370.7 million compared to KD 322.4 million for 2017, an increase of 15%. Operating profit amounted to KD 606.9 million as compared to KD 557.2 million in 2017, an increase of 8.9%.

Net interest income and net income from Islamic financing at KD 690.5 million reflects a 9.8% increase on 2017 (KD 629 million). Net fees and commissions at KD 150.2 million reflects a 8.4% increase on 2017 (KD 138.6 million). Net gains from dealing in foreign currencies amounted to KD 39 million in 2018 as compared to KD 33.7 million in 2017.

Operating expenses amounted to KD 276.3 million as compared to KD 265.4 million in 2017. The cost to income ratio for 2018 improved to 31.3% as compared to 32.3% in 2017.

Provision charge for credit losses and impairment losses amounted to KD 179.7 million as compared to KD 188.2 million in 2017.

The return on average equity at 12% in 2018 compared to 10.8% in 2017.

2018 Balance Sheet

Total assets of the Group grew to KD 27,427.9 million from KD 26,034.6 million at the end of 2017, an increase of 5.4%. Loans, advances and Islamic financing to customers grew by KD 1 billion to KD 15,503.4 million, an increase of 6.9%. Investment securities grew by KD 329 million to KD 3,678 million, an increase of 9.8%.

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 4,648.6 million at the year end. Deposits with banks amounted to KD 2,364.2 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities amounted to KD 385 million at the year end as compared to KD 505.9 million in 2017, whilst specific provisions amounted to KD 120.7 million at the year end compared to KD 109.6 million in 2017. The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Customer deposits grew by KD 609.2 million to KD 14,388.8 million at the year end, an increase of 4.4%. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks and financial institutions increased by KD 621.2 million to KD 8,090.5 million.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 143.2 million at the year end against collateral of KD 315.2 million. Deposits of Board members and related parties were KD 34.2 million. Loans and facilities to the Group's Executive Management amounted to KD 2.6 million whilst deposits from the Group's Executive Management amounted to KD 6.1 million.

Equity

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 214.3 million amounted to KD 2,948.9 million, as compared to KD 2,854.9 million at the end of 2017.

The Basel III capital adequacy ratio was 17.2% at the year end (2017: 17.8%) as compared to the CBK prescribed regulatory minimum of 15% (2017: 15%). The leverage ratio was 9.2% at the year end (2017: 9.2%) as compared to the CBK prescribed regulatory minimum of 3%.

Capital Market Authority Requirements

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

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

Bonus Shares, Dividends and Proposed Appropriations

Net profit for the year was principally allocated as follows:

1. KD 214.3 million to the dividend account for the distribution of a cash dividend of 35 fils per share (30 fils in 2017) subject to the approval of shareholders at the annual general meeting.
2. KD 31.1 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2018 (5% for 2017) (equivalent to 310,665,994 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 14.8 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 15.2 million to interest and profit payment towards perpetual Tier 1 Capital Securities and Perpetual Tier 1 Sukuk by a subsidiary.
5. KD 95.3 million to retained earnings.

Important Financial Indicators

KD million	2018	2017	2016
Total assets	27,427.9	26,034.6	24,238.8
Loans, advances and Islamic financing to customers	15,503.4	14,502.6	13,611.5
Customer deposits	14,388.8	13,779.6	12,608.1
Total operating income	883.2	822.7	745.3
Profit attributable to shareholders of the Bank	370.7	322.4	295.2

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), as adopted for use by the State of Kuwait.

Basis for Opinion

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

Key Audit Matters

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

We have identified the following key audit matters:

a) Credit losses on loans, advances and Islamic financing to customers

The recognition of credit losses on loans, advances and Islamic financing ("credit facilities") to customers is the higher of Expected Credit Loss ("ECL") under International Financial Reporting Standard 9: Financial Instruments ("IFRS 9"), determined in accordance with Central Bank of Kuwait (the "CBK") guidelines, and the provision required by the CBK rules on classification of credit facilities and calculation of their provision ("the CBK rules") as disclosed in the accounting policies and in Note 12 to the consolidated financial statements.

Recognition of ECL under IFRS 9, determined in accordance with CBK guidelines, is a new and complex accounting policy, which requires considerable judgement in its implementation. ECL is dependent on management's judgement in assessing significant increase in credit risk and classification of credit facilities into various stages, determining when a default has occurred, development of models for assessing the probability of default of customers and estimating cash flows from recovery procedures or realization of collateral. Recognition of specific provision on impaired facility under the CBK rules is based on the instructions by CBK on the minimum provision to be recognized together with any additional provision to be recognised based on management estimate of expected cash flows related to that credit facility.

Due to the significance of credit facilities and the related estimation uncertainty and judgement in the impairment calculation, this was considered as a key audit matter.

Our audit procedures included assessing the design and implementation of controls over inputs and assumptions used by the Group in developing the models, its governance and review controls performed by the management in determining the adequacy of credit losses.

With respect to the ECL based on IFRS 9, determined in accordance with the CBK guidelines, we have selected a samples of credit facilities outstanding as at the reporting date and checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of the credit facilities into various stages. For a sample of credit facilities, we have checked the appropriateness of the Group's staging criteria, Exposure at Default ("EAD") Probability of Default ("PD") and Loss Given Default ("LGD") including the eligibility and value of collateral considered in the ECL models used by the Group to determine ECL taking into consideration CBK guidelines. We have also checked the consistency of various inputs and assumptions used by the Group's management to determine ECL.

Further, for the CBK rules provision requirements, we have assessed the criteria for determining whether there is a requirement to calculate any credit loss in accordance with the related regulations and, if required, it has been computed accordingly. For the samples selected, we have verified whether all impairment events have been identified by the Group's management. For the selected samples which also included impaired credit facilities, we have assessed the valuation of collateral and checked the resultant provision calculations.

b) Impairment of goodwill and other intangible assets

The Group has goodwill and other intangible assets with carrying value of KD 578,973 thousand as at 31 December 2018. The impairment tests of goodwill and other intangible assets performed by the management are significant to our audit because the assessment of the recoverable amount of goodwill and other intangible assets under the value-in-use basis is complex and requires considerable judgments on part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the banking sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill and other intangible assets as a key audit matter.

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

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

c) Valuation of derivative financial instruments

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

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

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

Other information included in the Annual Report of the Group for the year ended 31 December 2018

Management is responsible for the other information. Other information consists of the information included in the Annual Report of the Group for the year ended 31 December 2018, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Bank's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2018 after the date of our auditors' report.

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

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

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2018 that might have had a material effect on the business of the Bank or on its financial position.

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

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

8 January 2019
Kuwait

CONSOLIDATED FINANCIAL STATEMENTS

Notes To The Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KD 000's	2017 KD 000's	2018 USD 000's	2017 USD 000's
Interest income	4	897,218	742,616	2,958,187	2,448,454
Interest expense	5	330,882	223,762	1,090,940	737,758
Net interest income		566,336	518,854	1,867,247	1,710,696
Murabaha and other Islamic financing income		186,089	155,903	613,548	514,023
Finance cost and Distribution to depositors		61,972	45,793	204,326	150,983
Net income from Islamic financing		124,117	110,110	409,222	363,040
Net interest income and net income from Islamic financing		690,453	628,964	2,276,469	2,073,736
Net fees and commissions	6	150,176	138,556	495,140	456,828
Net investment income	7	2,140	19,818	7,056	65,341
Net gains from dealing in foreign currencies		39,026	33,735	128,671	111,227
Other operating income		1,424	1,600	4,695	5,275
Non-interest income		192,766	193,709	635,562	638,671
Net operating income		883,219	822,673	2,912,031	2,712,407
Staff expenses		159,984	154,472	527,478	509,305
Other administrative expenses		98,555	92,731	324,942	305,740
Depreciation of premises and equipment		14,703	15,121	48,477	49,855
Amortisation of intangible assets	15	3,096	3,121	10,208	10,290
Operating expenses		276,338	265,445	911,105	875,190
Operating profit before provision for credit losses and impairment losses		606,881	557,228	2,000,926	1,837,217
Provision charge for credit losses and impairment losses	8	179,692	188,219	592,456	620,570
Operating profit before taxation		427,189	369,009	1,408,470	1,216,647
Taxation	9	33,240	26,704	109,594	88,045
Profit for the year		393,949	342,305	1,298,876	1,128,602
Attributable to:					
Shareholders of the Bank		370,709	322,362	1,222,252	1,062,849
Non-controlling interests		23,240	19,943	76,624	65,753
		393,949	342,305	1,298,876	1,128,602
Basic earnings per share attributable to shareholders of the Bank	10	58 fils	50 fils	19 Cents	16 Cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 KD 000's	2017 KD 000's	2018 USD 000's	2017 USD 000's
Profit for the year	393,949	342,305	1,298,876	1,128,602
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	-	13,633	-	44,949
Net transfer to consolidated statement of income	-	(13,450)	-	(44,346)
Investment in debt securities measured at FVOCI:				
Net change in fair value	(31,214)	-	(102,914)	-
Net transfer to consolidated statement of income	119	-	392	-
	(31,095)	183	(102,522)	603
Share of other comprehensive (loss) income of associates	(282)	246	(930)	811
Exchange differences on translation of foreign operations	(4,265)	2,919	(14,062)	9,625
Exchange differences transferred to consolidated statement of income on de-recognition of associates	11,978	-	39,492	-
Other comprehensive (loss) income for the year reclassifiable to consolidated statement of income in subsequent years	(23,664)	3,348	(78,022)	11,039
Net loss on investments in equity instruments designated at FVOCI (not reclassifiable to consolidated statement of income in subsequent periods)	(891)	-	(2,938)	-
Other comprehensive (loss) income for the year	(24,555)	3,348	(80,960)	11,039
Total comprehensive income for the year	369,394	345,653	1,217,916	1,139,641
Attributable to:				
Shareholders of the Bank	347,886	326,144	1,147,003	1,075,318
Non-controlling interests	21,508	19,509	70,913	64,323
	369,394	345,653	1,217,916	1,139,641

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	2018 KD 000's	2017 KD 000's	2018 USD 000's	2017 USD 000's
Assets					
Cash and short term funds	11	**2,966,707**	2,743,640	**9,781,428**	9,045,961
Central Bank of Kuwait bonds	13	**809,871**	655,591	**2,670,198**	2,161,527
Kuwait Government treasury bonds	13	**872,042**	1,076,211	**2,875,179**	3,548,338
Deposits with banks		**2,364,242**	2,488,188	**7,795,061**	8,203,719
Loans, advances and Islamic financing to customers	12	**15,503,402**	14,502,609	**51,115,734**	47,816,053
Investment securities	13	**3,678,032**	3,348,996	**12,126,713**	11,041,860
Investment in associates	14	**31,425**	63,187	**103,610**	208,332
Land, premises and equipment		**362,801**	324,277	**1,196,179**	1,069,163
Goodwill and other intangible assets	15	**578,973**	581,906	**1,908,912**	1,918,582
Other assets	16	**260,445**	249,996	**858,704**	824,253
Total assets		**27,427,940**	26,034,601	**90,431,718**	85,837,788
Liabilities					
Due to banks and other financial institutions		**8,090,484**	7,469,303	**26,674,857**	24,626,782
Customer deposits		**14,388,836**	13,779,607	**47,440,936**	45,432,268
Certificates of deposit issued		**451,128**	490,835	**1,487,399**	1,618,315
Global medium term notes	17	**220,124**	221,173	**725,763**	729,222
Subordinated Tier 2 bonds	18	**124,768**	124,734	**411,368**	411,256
Other liabilities	19	**451,290**	387,848	**1,487,933**	1,278,761
Total liabilities		**23,726,630**	22,473,500	**78,228,256**	74,096,604
Equity					
Share capital	20	**621,332**	591,744	**2,048,572**	1,951,019
Proposed bonus shares	21	**31,067**	29,588	**102,430**	97,554
Statutory reserve	20	**310,666**	295,872	**1,024,286**	975,509
Share premium account	20	**803,028**	803,028	**2,647,636**	2,647,636
Treasury shares	20	**(65,425)**	(77,799)	**(215,710)**	(256,508)
Treasury share reserve	20	**14,010**	13,994	**46,192**	46,139
Other reserves	20	**1,448,579**	1,372,964	**4,776,060**	4,526,752
Equity attributable to shareholders of the Bank		**3,163,257**	3,029,391	**10,429,466**	9,988,101
Perpetual Tier 1 Capital Securities	22	**210,700**	210,700	**694,692**	694,692
Non-controlling interests	26	**327,353**	321,010	**1,079,304**	1,058,391
Total equity		**3,701,310**	3,561,101	**12,203,462**	11,741,184
Total liabilities and equity		**27,427,940**	26,034,601	**90,431,718**	85,837,788

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 KD 000's	2017 KD 000's	2018 USD 000's	2017 USD 000's
Operating activities					
Profit for the year		393,949	342,305	1,298,876	1,128,602
Adjustments for:					
Net investment income	7	(2,140)	(19,818)	(7,056)	(65,341)
Depreciation of premises and equipment		14,703	15,121	48,477	49,855
Amortisation of intangible assets	15	3,096	3,121	10,208	10,290
Provision charge for credit losses and impairment losses	8	179,692	188,219	592,456	620,570
Share based payment reserve		48	358	158	1,180
Taxation	9	33,240	26,704	109,594	88,045
Operating profit before changes in operating assets and liabilities		622,588	556,010	2,052,713	1,833,201
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		(154,280)	93,298	(508,671)	307,610
Kuwait Government treasury bonds		204,169	(583,110)	673,159	(1,922,552)
Deposits with banks		123,946	(80,273)	408,658	(264,665)
Loans, advances and Islamic financing to customers		(1,167,224)	(1,065,748)	(3,848,414)	(3,513,841)
Other assets		(10,449)	(48,581)	(34,451)	(160,175)
Due to banks and other financial institutions		621,181	121,500	2,048,075	400,593
Customer deposits		609,229	1,171,515	2,008,668	3,862,562
Certificates of deposit issued		(39,707)	74,846	(130,917)	246,772
Other liabilities		56,694	45,472	186,924	149,924
Tax paid		(25,819)	(28,133)	(85,127)	(92,756)
Net cash from operating activities		840,328	256,796	2,770,617	846,673
Investing activities					
Purchase of investment securities		(1,737,758)	(1,782,370)	(5,729,502)	(5,876,591)
Proceeds from sale/redemption of investment securities		1,371,050	1,627,148	4,520,442	5,364,814
Dividend income	7	2,658	3,143	8,763	10,363
Dividend from associates		236	34	778	112
Proceeds from sale of land, premises and equipment		2,794	4,970	9,212	16,386
Purchase of land, premises and equipment		(56,021)	(89,282)	(184,705)	(294,369)
Investment in an associate		(136)	-	(448)	-
Acquisition of non-controlling interests		(13,744)	(707)	(45,315)	(2,331)
Net cash used in investing activities		(430,921)	(237,064)	(1,420,775)	(781,616)
Financing activities					
Net proceeds from issuance of Global medium term notes	17	-	225,880	-	744,741
Proceeds from sale of treasury shares		12,390	-	40,851	-
Dividends paid		(174,883)	(166,184)	(576,601)	(547,919)
Interest paid on Perpetual Tier 1 Capital Securities		(12,151)	(12,232)	(40,063)	(40,330)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary		(5,108)	(5,119)	(16,841)	(16,877)
Dividends paid by a subsidiary to non-controlling interests		(6,588)	(5,400)	(21,721)	(17,804)
Net cash (used in) from financing activities		(186,340)	36,945	(614,375)	121,811
Increase in cash and short term funds		223,067	56,677	735,467	186,868
Cash and short term funds at the beginning of the year		2,743,640	2,686,963	9,045,961	8,859,093
Cash and short term funds at the end of the year	11	2,966,707	2,743,640	9,781,428	9,045,961

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 20e)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total equity
Balance at 31 December 2017	591,744	29,588	295,872	803,028	(77,799)	13,994	1,372,964	3,029,391	210,700	321,010	3,561,101
Impact of adopting IFRS 9 at 1 January 2018 (Refer Note 24)	-	-	-	-	-	-	(29,045)	(29,045)	-	(104)	(29,149)
Restated balance as at 1 January 2018	591,744	29,588	295,872	803,028	(77,799)	13,994	1,343,919	3,000,346	210,700	320,906	3,531,952
Profit for the year	-	-	-	-	-	-	370,709	370,709	-	23,240	393,949
Other comprehensive loss	-	-	-	-	-	-	(22,823)	(22,823)	-	(1,732)	(24,555)
Total comprehensive income	-	-	-	-	-	-	347,886	347,886	-	21,508	369,394
Transfer to statutory reserve (Note 20b)	-	-	14,794	-	-	-	(14,794)	-	-	-	-
Issue of bonus shares (Note 20a)	29,588	(29,588)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	12,374	16	-	12,390	-	-	12,390
Dividends paid	-	-	-	-	-	-	(174,883)	(174,883)	-	-	(174,883)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(12,151)	(12,151)	-	-	(12,151)
Share based payment in a subsidiary	-	-	-	-	-	-	28	28	-	20	48
Dividend paid by a subsidiary to non-controlling Interests	-	-	-	-	-	-	-	-	-	(6,588)	(6,588)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(3,033)	(3,033)	-	(2,075)	(5,108)
Proposed bonus shares (Note 21)	-	31,067	-	-	-	-	(31,067)	-	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	-	(7,326)	(7,326)	-	(6,418)	(13,744)
At 31 December 2018	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310

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

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

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

1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 8 January 2019. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations issued by the Central Bank of Kuwait ("CBK") for financial services institutions in the State of Kuwait. These regulations require the expected credit loss ("ECL") on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

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

2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year except for the changes arising from the adoption of IFRS 9 'Financial Instruments' effective from 1 January 2018.

Adoption of IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018 as described below.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 24.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and measurement of financial assets and financial liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Group's accounting policies for classification and measurement of financial assets under IFRS 9 is explained in Note 2.15.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Impairment of credit facilities and other financial assets:
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss (ECL) model. The new impairment model adopted by the Group applies to credit facilities (loans, advances and islamic financing to customers, letters of credit, letters of guarantee, commitments to extend credit facilities), debt investments measured at amortised cost or FVOCI and balances and deposits with banks measured at amortised cost but not to investments in equity investments. The Group is also required to calculate provision for credit losses on credit facilities in accordance with instructions issued by the CBK in respect of the classification of credit facilities and calculation of provisions. Impairment of credit facilities shall be recognised at the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions. The Group's accounting policies for impairment of financial assets is explained in Note 2.9

Hedge accounting:
The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply more qualitative and forward looking approach to assessing hedge effectiveness. The new model no longer specifies quantitative measures for effectiveness testing and as a result the 80%-125% range under IAS 39 is replaced by an objectives based test that focuses on the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on that economic relationship. The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for hedge accounting.

Adoption of IFRS 15 'Revenue from Contracts with customers'
The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard did not result in any change in accounting policies of the Group and did not have any material effect on the Group's consolidated financial statements.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:
A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2019 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 16: Leases
In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. Based on a quantitative assessment carried out by the Group, the impact of adopting IFRS 16 on the Group's consolidated financial statements is not material.

2.3 Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries and associates are prepared using consistent accounting policies and are adjusted, where

necessary, to bring the accounting policies in line with those of the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

a. Subsidiaries

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

b. Non-controlling interest

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

c. Associates

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

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

2.4 Foreign currencies

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

a. Translation of foreign currency transactions

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

Translation gains or losses on non-monetary items are recognised in other comprehensive income when non-monetary items are measured at fair value through other comprehensive income. Translation gains or losses on non-monetary items measured at fair value through profit or loss are recognised in consolidated income statement.

b. Translation of financial statements of foreign entities

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

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

2.5 Interest income and expenses

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

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

2.6 Murabaha and other Islamic financing income

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

2.7 Fees and commissions income

Fees and commission income are recognised when the Group satisfies the performance obligation by transferring the promised service to customers. At inception of the contract, the Group determines whether it satisfies the performance obligation over a period of time or at a point in time. 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 at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

2.8 Dividend income

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

2.9 Impairment of financial assets

Policy applicable from 1 January 2018

The Group computes Expected Credit Losses (ECL) on the following financial instruments that 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 FVOCI
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of 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 shall be recognised in the consolidated statement of financial position at an amount equal to the higher of ECL under IFRS 9 according to the CBK guidelines, and the provisions required by the CBK instructions.

Impairment of financial assets other than credit facilities

The Group recognises ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks. Equity investments are not subject to expected credit losses.

Expected Credit Losses

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 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 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.

Life time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time 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 significant increase in credit risk since initial recognition and 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
- 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 or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents 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 probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Incorporation of forward looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

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, reduction in the amount of principal or interest 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. The facility will have a loss allowance measured based on 12 month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. 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 FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the group is unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

Provisions for credit losses in accordance with CBK instructions

The Group is required to calculate provisions for credit losses on credit facilities in accordance with the instructions of CBK on the classification of credit facilities and calculation of provisions. Credit facilities are classified as past due when a payment has not been received on its contractual payment date or if the facility is in excess of pre-approved limits. A credit facility is classified as past due and impaired when 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 but not impaired and past due and impaired loans are managed and monitored as irregular facilities and are classified into the following four categories which are then used to determine the provisions.

Category	**Criteria**	**Specific provisions**
Watch list	Irregular for a period of up to 90 days	-
Substandard	Irregular for a period of 91- 180 days	20%
Doubtful	Irregular for a period of 181- 365 days	50%
Bad	Irregular for a period exceeding 365 days	100%

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

Policy applicable before 1 January 2018

Impairment of financial assets

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

a. Assets carried at amortised cost

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

Renegotiated loans

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

b. Assets classified as available for sale

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

2.10 Impairment of non-financial assets

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

2.11 Share based compensation

Equity settled share based compensation

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

Cash settled share based compensation

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Post employment benefits

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

2.13 Taxation

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

2.14 Recognition of financial assets and financial liabilities

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

2.15 Classification and measurement of financial assets

Policy applicable from 1 January 2018

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)
The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimus exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at Amortised cost:
A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the consolidated statement of income. Any gain or loss on de-recognition is recognised in the consolidated statement of income.

Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt Securities at FVOCI
A debt security is carried at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

(ii) Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading .Such classification is determined on an instrument by instrument basis. Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on de-recognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

The Group's financial assets are classified and measured as follows:

Cash and short term funds

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days. Cash and short term funds are classified and carried at amortised cost using effective interest rate.

Deposits with banks

Deposits with banks are classified and carried at amortised cost using the effective interest method. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

Loans and advances to customers

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

Islamic financing to customers

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

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

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

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

Financial investments
Group's financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities 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 at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

Policy applicable before 1 January 2018

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

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

Loans and advances to customers
Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value attributable to the risk being hedged.

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

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

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

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

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

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

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

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

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

Investments carried at fair value through statement of income
Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified

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

Reclassification of financial investments

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

2.16 Fair value measurement

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

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

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

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

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

2.17 Repurchase and resale agreements

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

2.18 Offsetting of financial assets and liabilities

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

2.19 De-recognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

2.20 Derivative financial instruments and hedge accounting

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

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

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

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

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

2.21 Trade and settlement date accounting

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

2.22 Investment properties

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

2.23 Land, premises and equipment

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

Projects and work in progress are stated at cost less impairment if any. Costs are those expenses incurred by the Group that are directly attributable to the creation of the asset. When the asset is ready for use, capital work in progress is transferred to the appropriate category and depreciated in accordance with the Group's policies.

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

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

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

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

2.24 Business combinations

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

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

2.25 Goodwill and intangible assets

a. Goodwill

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

b. Intangible assets

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

2.26 Property acquired on settlement of debt

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

2.27 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued

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

2.28 Islamic customer deposits

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

Investment accounts

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

Non-investment accounts

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

2.29 Subordinated Tier 2 Bonds and Global Medium Term Notes

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

2.30 Financial guarantees

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

2.31 Treasury shares

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

2.32 Fiduciary assets

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

2.33 Significant accounting judgements and estimates

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

Accounting Judgements

Classification of financial assets - applicable from 1 January 2018

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Group also applies judgment to assess if there is a change in business model in circumstances when the assets with in that business model are realised differently than the original expectations. Refer Note 2.15 classification of financial assets for more information.

Classification of financial assets – applicable before 1 January 2018

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

Impairment of available for sale equity investments - applicable before 1 January 2018

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

Estimation uncertainty and assumptions

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

Expected Credit Losses on financial assets - applicable from 1 January 2018

The Group estimates Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing group of similar financial assets for the purpose of measuring ECL.

Information about significant judgements and estimates made by the Group in the above areas is set out in Note 30.1.1.

Provision for credit losses

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

Impairment of goodwill

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

Impairment of investment in associates

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

Fair values of assets and liabilities including intangibles

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

Share based payments

The Group measures the share based payments to employees by reference to the fair value of the relevant equity instruments. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share based payment transactions are disclosed in Note 23.

Valuation of unquoted financial assets

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

2.34 Basis of Translation

The United States dollar amounts in the Consolidated Statement of Income, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows represent supplementary information and have been translated at a rate of KD 0.30330 per USD which represents the mid-market rate at 31 December 2018.

3 SEGMENTAL ANALYSIS

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

Consumer and Private Banking

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

3 SEGMENTAL ANALYSIS (continued)

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

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

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

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

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

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

2018	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income and net income from Islamic financing	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 year	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

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

3 SEGMENTAL ANALYSIS (continued)

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

Net operating income	2018 KD 000's	2017 KD 000's
Kuwait	673,959	642,085
Other Middle East and North Africa	153,484	129,582
Europe	33,211	28,710
Others	22,565	22,296
	883,219	822,673

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

Non-current assets	2018 KD 000's	2017 KD 000's
Kuwait	943,608	960,011
Other Middle East and North Africa	26,808	23,397
Europe	9,499	9,586
Others	542	623
	980,457	993,617

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

4 INTEREST INCOME

	2018 KD 000's	2017 KD 000's
Deposits with banks	85,039	57,624
Loans and advances to customers	622,288	534,490
Debt investment securities	148,106	122,481
Kuwait Government treasury bonds and CBK bonds	41,785	28,021
	897,218	742,616

5 INTEREST EXPENSE

	2018 KD 000's	2017 KD 000's
Due to banks and other financial institutions	121,661	86,576
Customer deposits	183,405	120,738
Certificates of deposit issued	12,092	7,103
Global Medium Term Notes	7,344	3,180
Subordinated Tier 2 bonds	6,380	6,165
	330,882	223,762

6 NET FEES AND COMMISSIONS

	2018 KD 000's	2017 KD 000's
Fees and commissions income	184,198	167,697
Fees and commissions related expenses	(34,022)	(29,141)
Net fees and commissions	150,176	138,556

Fees and commissions income includes asset management fees of KD 33,483 thousand (2017: KD 30,926 thousand) earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

7 NET INVESTMENT INCOME

	2018 KD 000's	2017 KD 000's
Net realised gains on sale of investments	435	13,968
Net gains from investments carried at fair value through statement of income	2,776	1,050
Dividend income	2,658	3,143
Share of results of associates	2,413	1,016
Loss on de-recognition of associates (Note 14)	(5,376)	-
Net (losses) gains from investment properties	(766)	641
	2,140	19,818

8 PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2018 KD 000's	2017 KD 000's
Provision charge for credit losses	169,318	174,951
ECL release for investment in debt securities (Note 13)	(74)	-
ECL charge for other financial assets	417	-
Impairment losses on investment securities	-	518
Impairment losses on associates (Note 14)	10,031	12,750
	179,692	188,219

9 TAXATION

	2018 KD 000's	2017 KD 000's
National labour support tax	9,281	8,176
Zakat	4,103	3,566
Contribution to Kuwait Foundation for the Advancement of Sciences	3,419	2,955
Overseas tax	16,437	12,007
	33,240	26,704

10 EARNINGS PER SHARE

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

	2018 KD 000's	2017 KD 000's
Profit for the year attributable to shareholders of the Bank	370,709	322,362
Less: Interest paid on Perpetual Tier 1 Capital Securities	(12,151)	(12,232)
Less: Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary attributable to shareholders of the Bank	(3,033)	(2,989)
	355,525	307,141
Weighted average number of shares outstanding during the year net of treasury shares (thousands)	6,121,118	6,107,250
Basic earnings per share	58 fils	50 fils

Earnings per share calculations for 2017 have been adjusted to take account of the bonus shares issued in 2018.

11 CASH AND SHORT TERM FUNDS

	2018 KD 000's	2017 KD 000's
Cash on hand	216,987	195,249
Current account with other banks	1,074,270	1,264,834
Money at call	394,274	183,985
Balances with the Central Bank of Kuwait	157,481	84,207
Deposits and Murabaha with banks maturing within seven days	1,124,295	1,015,365
	2,967,307	2,743,640
Expected credit losses	(600)	-
	2,966,707	2,743,640

12 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2018	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Corporate	9,432,829	270,815	445,329	271,185	274,166	10,694,324
Retail	5,313,560	-	1,226	-	-	5,314,786
Loans, advances and Islamic financing to customers	14,746,389	270,815	446,555	271,185	274,166	16,009,110
Provision for credit losses						(505,708)
						15,503,402

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

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

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

The Expected Credit Losses on credit facilities determined under IFRS 9 amounted to KD 408,086 thousand as at 31 December 2018.

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's
Balance at beginning of the year	109,626	101,386	505,887	566,868	615,513	668,254
Provided during the year	163,352	89,809	3,079	84,821	166,431	174,630
Transfer	124,000	145,800	(124,000)	(145,800)	-	-
Amounts written off net of exchange movements	(276,238)	(227,369)	2	(2)	(276,236)	(227,371)
Balance at end of the year	120,740	109,626	384,968	505,887	505,708	615,513

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

	Corporate		Retail		Total	
	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's
Balance at beginning of the year	43,488	44,248	66,138	57,138	109,626	101,386
Provided during the year	138,888	69,495	24,464	20,314	163,352	89,809
Transfer	124,000	145,800	-	-	124,000	145,800
Amounts written off net of exchange movements	(255,501)	(216,055)	(20,737)	(11,314)	(276,238)	(227,369)
Balance at end of the year	50,875	43,488	69,865	66,138	120,740	109,626

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

	Specific		General		Total	
	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's	2018 KD 000's	2017 KD 000's
Cash facilities	163,352	89,809	3,079	84,821	166,431	174,630
Non cash facilities	1,616	20	1,271	301	2,887	321
Provision charge for credit losses	164,968	89,829	4,350	85,122	169,318	174,951

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

The available provision on non-cash facilities of KD 32,478 thousand (2017: KD 29,591 thousand) is included under other liabilities (Note 19).

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

	2018 KD 000's	2017 KD 000's
Loans, advances and Islamic financing to customers	221,694	214,092
Provisions	112,024	104,476

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2018 amounts to KD 72,063 thousand (2017: KD 85,643 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 FINANCIAL INVESTMENTS

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

2018	Amortised cost KD 000's	Fair value through other comprehensive income KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	874,414	1,271,827	-	2,146,241
Debt securities - Non Government	-	1,371,165	-	1,371,165
Equities	-	61,999	24,575	86,574
Other investments	-	-	99,655	99,655
	874,414	2,704,991	124,230	3,703,635
Expected credit losses	(25,603)	-	-	(25,603)
	848,811	2,704,991	124,230	3,678,032
Central Bank of Kuwait bonds	809,871	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	872,042
	2,530,724	2,704,991	124,230	5,359,945

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

An impairment loss of KD 518 thousand for the year ended 31 December 2017 has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

Investments in debt securities are subject to Expected Credit Losses. Central Bank of Kuwait bonds and Kuwait Government treasury bonds are not subject to Expected Credit Losses. An analysis of changes in the gross carrying amount and the corresponding Expected Credit Losses in relation to Investment in debt securities are as follows:

2018	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
Gross carrying amount as at 1 January 2018	2,373,659	727,609	-	3,101,268
Assets purchased/derecognised during the year -Net	585,230	(111,959)	-	473,271
Transfer between stages	(33,769)	33,769	-	-
Fair value and exchange movements	(57,365)	232	-	(57,133)
At 31 December 2018	2,867,755	649,651	-	3,517,406

2018	Stage 1 KD 000's	Stage 2 KD 000's	Stage 3 KD 000's	Total KD 000's
ECL allowance as at 1 January 2018	6,054	27,249	-	33,303
Impact due to purchase/de-recognition	1,124	(329)	-	795
Impact due to transfer between stages	(109)	169	-	60
Re-measurement of ECL	(463)	(466)	-	(929)
Net charge (release) to consolidated statement of income	552	(626)	-	(74)
At 31 December 2018	6,606	26,623	-	33,229

The Group has classified certain unquoted equity investments at fair value through other comprehensive income on the basis that these are not held for trading. The dividend received on such investments during 2018 was KD 1,782 thousand. During the year, the Group sold FVOCI equity investments with a carrying value of KD 501 thousand and the realised loss on sale amounted to KD 39 thousand.

14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2018 KD 000's	2017 KD 000's
Bank Syariah Muamalat Indonesia T.B.K.	-	20,326
Bank of London and the Middle East	26,614	31,777
Turkish Bank A.S.	2,079	4,762
Others	2,732	6,322
	31,425	63,187

	Country of incorporation	Principal business	Percentage ownership	
			2018	2017
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	-	30.5
Bank of London and the Middle East	United Kingdom	Banking	26.4	26.4
Turkish Bank A.S.	Turkey	Banking	34.3	34.3

During the year the Group received dividend amounting to KD 236 thousand from associates (2017: KD 34 thousand).

During the year the Group provided KD 10,031 thousand (2017: KD 12,750 thousand) by way of impairment in respect of its associates. The impairment in respect of associates is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using market multiples.

During the year the Group discontinued the equity method of accounting in respect of Bank Syariah Muamalat Indonesia T.B.K upon loss of significant influence and reclassified the investment to 'Investment at fair value through other comprehensive income'. The net loss arising from this reclassification is included in Loss on de-recognition of associates under Net Investment Income in the consolidated statement of income.

15 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2018	397,903	218,425	616,328
Exchange rate adjustments	153	41	194
At 31 December 2018	398,056	218,466	616,522
Accumulated amortisation & impairment			
At 1 January 2018	-	34,422	34,422
Amortisation charge for the year	-	3,096	3,096
Exchange rate adjustments	-	31	31
At 31 December 2018	-	37,549	37,549
Net book value			
At 31 December 2018	398,056	180,917	578,973

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

Net book value of goodwill as at 31 December 2018 includes KD 334,531 thousand (2017: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 60,622 thousand (2017: KD 60,483 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,903 thousand (2017: KD 2,889 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2018 includes banking licences and brand amounting to KD 159,896 thousand (2017: KD 161,163 thousand), customer relationships and core deposits amounting to KD 14,311 thousand (2017: KD 16,130 thousand) and brokerage licences amounting to KD 6,710 thousand (2017: KD 6,710 thousand). Intangible assets with indefinite useful life amounts to KD 165,333 thousand (2017: KD 165,333 thousand). Intangible assets with definite useful life amounting to KD 15,584 thousand (2017: KD 18,670 thousand) are amortised over a period of 5 to 15 years.

15 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Impairment testing for goodwill and intangible assets with indefinite useful life

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

Since the fair value of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 17% (2017: 17%) and a terminal growth rate of 5% (2017: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2017: 9.25%) and terminal growth rate of 3% (2017: 3%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill or intangible assets with indefinite useful life are impaired.

16 OTHER ASSETS

	2018 KD 000's	2017 KD 000's
Interest receivable	100,477	78,303
Positive fair value of derivatives (Note 28)	56,403	27,680
Sundry debtors and prepayments	41,227	39,586
Investment properties	24,036	53,572
Properties acquired on settlement of debts	14,647	33,862
Others	23,655	16,993
	260,445	249,996

17 GLOBAL MEDIUM TERM NOTES

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

18 SUBORDINATED TIER 2 BONDS

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

19 OTHER LIABILITIES

	2018 KD 000's	2017 KD 000's
Interest payable	**124,622**	97,852
Income received in advance	**36,001**	35,082
Taxation	**26,598**	19,176
Provision on non-cash facilities (Note 12)	**32,478**	29,591
Accrued expenses	**38,737**	36,645
Negative fair value of derivatives (Note 28)	**39,610**	54,123
Post-employment benefit	**37,802**	34,114
Others	**115,442**	81,265
	451,290	387,848

Post Employment Benefit

The present value of defined benefit obligations and the related current and past service cost was determined by actuarial valuations using the projected unit credit method. The significant inputs used in the actuarial valuation are a discount rate of 5%, future salary increases in line with expected consumer price inflation and demographic assumptions of mortality, withdrawal, retirement and disability rates.

The movement in the post-employment benefit was as follows:

	2018 KD 000's	2017 KD 000's
Balance at 1 January	**34,114**	30,653
Net charge during the year	**7,256**	12,981
Paid during the year	**(3,568)**	(9,520)
Balance at 31 December	**37,802**	34,114

20 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised share capital of the Bank comprises of 7,500,000,000 (2017: 6,000,000,000) shares of KD 0.100 each. The increase in authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 10 March 2018.

	2018 KD 000's	2017 KD 000's
Issued and fully paid in cash:		
6,213,319,893 (2017 : 5,917,447,518) shares of KD 0.100 each	**621,332**	591,744

Annual General Assembly meeting of the shareholders held on 10 March 2018 approved an increase of KD 29,588 thousand (2017: KD 28,178 thousand) in the issued and fully paid share capital of the Bank by issuing 295,872,375 (2017: 281,783,215) bonus shares representing 5% of the share capital. The issued and fully paid up share capital increased from KD 591,744,751.800 to KD 621,331,989.300 and the change in share capital was recorded in the commercial register on 18 March 2018.

20 SHARE CAPITAL AND RESERVES (continued)

a) Share capital (continued)

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

	2018	2017
Number of shares in issue as at 1 January	**5,917,447,518**	5,635,664,303
Bonus issue	**295,872,375**	281,783,215
Number of shares in issue as at 31 December	**6,213,319,893**	5,917,447,518

b) Statutory reserve

The Board of Directors recommended a transfer of KD 14,794 thousand (2017: KD 14,089 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non-distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

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

c) Share premium account

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

d) Treasury shares and Treasury share reserve

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

	2018	2017
Number of treasury shares	**89,200,000**	101,018,981
Treasury shares as a percentage of total shares in issue	**1.4%**	1.7%
Cost of treasury shares (KD thousand)	**65,425**	77,799
Market value of treasury shares (KD thousand)	**74,393**	73,542
Weighted average market value per treasury share (fils)	**784**	718

Movement in treasury shares was as follows:

	No. of shares	
	2018	2017
Balance as at 1 January	**101,018,981**	96,208,554
Bonus issue	**4,399,954**	4,810,427
Sales	**(16,218,935)**	-
Balance as at 31 December	**89,200,000**	101,018,981

20 SHARE CAPITAL AND RESERVES (continued)

d) Treasury shares and Treasury share reserve (continued)

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

e) Other reserves

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
At 1 January 2018	117,058	1,252,044	(234,491)	49,479	14,381	174,493	1,372,964
Impact of adopting IFRS 9 at 1 January 2018 (Refer note 24)	-	(24,427)	-	(4,618)	-	-	(29,045)
Restated balance as at 1 January 2018	117,058	1,227,617	(234,491)	44,861	14,381	174,493	1,343,919
Profit for the year	-	370,709	-	-	-	-	370,709
Other comprehensive income (loss)	-	-	8,766	(31,589)	-	-	(22,823)
Total comprehensive income (loss)	-	370,709	8,766	(31,589)	-	-	347,886
Transfer to statutory reserve (Note 20b)	-	(14,794)	-	-	-	-	(14,794)
Dividends paid	-	-	-	-	-	(174,883)	(174,883)
Dividend on treasury shares sold	-	(390)	-	-	-	390	-
Interest paid on perpetual Tier 1 Capital Securities	-	(12,151)	-	-	-	-	(12,151)
Realised loss on equity investments at FVOCI	-	(39)	-	39	-	-	-
Share based payment in a subsidiary	-	-	-	-	28	-	28
Profit distribution on perpetual Tier 1 Sukuk by a subsidiary	-	(3,033)	-	-	-	-	(3,033)
Proposed bonus shares (Note 21)	-	(31,067)	-	-	-	-	(31,067)
Proposed cash dividend 35 fils per share (Note 21)	-	(214,344)	-	-	-	214,344	-
Acquisition of non-controlling interests	-	(7,326)	-	-	-	-	(7,326)
At 31 December 2018	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579

20 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

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

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

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

21 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 35 fils per share (2017: 30 fils per share) and bonus shares of 5% (2017: 5%) on outstanding shares as at 31 December 2018. The cash dividend and bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders after obtaining the necessary regulatory approvals.

22 PERPETUAL TIER 1 CAPITAL SECURITIES

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

23 SHARE BASED PAYMENT

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

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.768 as at the end of the year. The significant inputs into the model were a share price of KD 0.834 at the measurement date, a standard deviation of expected share price returns of 26.28%, option life disclosed above and annual risk free interest rate of 3%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

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

	2018	2017
	No. of share options	No. of share options
Outstanding at 1 January	**6,952,359**	6,051,992
Granted during the year	**2,952,392**	3,237,108
Exercised during the year	**(1,670,591)**	(2,091,184)
Lapsed during the year	**(305,793)**	(245,557)
Outstanding at 31 December	**7,928,367**	6,952,359

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

The expense accrued on account of share based compensation plans for the year amounts to KD 2,476 thousand (2017: KD 1,909 thousand) and is included under staff expenses.

24 IMPACT OF IFRS 9 ADOPTION

The following table shows the original classification and measurement categories in accordance with IAS 39 and the new classification and measurement categories under IFRS 9 for the Group's financial assets other than Loans, advances and Islamic financing to customers as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD 000's	Remeasurement ECL KD 000's	Reclassification/ Remeasurement KD 000's	New carrying amount under IFRS 9 KD 000's
Financial assets						
Cash and short term funds	Loans and receivables	Amortised cost	2,743,640	(395)	-	2,743,245
Deposits with banks	Loans and receivables	Amortised cost	2,488,188	(491)	-	2,487,697
Central Bank of Kuwait bonds	HTM	Amortised cost	655,591	-	-	655,591
Kuwait Government treasury bonds	HTM	Amortised cost	919,218	-	-	919,218
Kuwait Government treasury bonds	AFS	Amortised cost	156,993	-	(985)	156,008
Investment securities						
Debt securities	AFS	FVOCI	2,167,749	-	-	2,167,749
Debt securities	AFS	Amortised cost	795,099	(24,591)	(73)	770,435
Debt securities	HTM	Amortised cost	138,493	(1,640)	-	136,853
Equities	AFS	FVOCI	36,275	-	-	36,275
Equities	FVTPL	FVOCI	3,477	-	-	3,477
Equities and other investments	AFS	FVTPL	171,972	-	(974)	170,998
Equities and other investments	FVTPL	FVTPL	35,931	-	-	35,931
Derivative assets	FVTPL	FVTPL	27,680	-	-	27,680
Other financial assets	Loans and receivables	Amortised cost	134,882	-	-	134,882
			10,475,188	(27,117)	(2,032)	10,446,039

(HTM: Held to maturity, AFS: Available for sale, FVOCI: Fair value through other comprehensive income , FVTPL: Fair value through profit or loss).

24 IMPACT OF IFRS 9 ADOPTION (continued)

The adoption of IFRS 9 did not result in any change in the classification and measurement of loans, advances and islamic financing to customers. Loans, advances and islamic financing to customers are classified and carried at amortised cost using effective interest method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait as detailed in note 2.9.

The following table reconciles the closing impairment allowances for financial assets other than loans, advances and islamic financing to customers determined in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowances determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowances under IAS 39 at 31 December 2017 KD 000's	Remeasurement KD 000's	Expected Credit Losses under IFRS 9 at 1 January 2018 KD 000's
Debt investment securities measured at amortised cost	-	26,231	26,231
Debt investment securities measured at FVOCI	-	7,072	7,072
Other financial assets measured at amortised cost	-	886	886
Total expected credit losses	-	34,189	34,189

The following table analyses the impact on transition to IFRS 9 to reserves and retained earnings.

	Cumulative changes in fair values KD 000's	Retained earnings KD 000's	Equity attributable to shareholders KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Closing balance under IAS 39 (31 December 2017)	49,479	1,252,044	3,029,391	321,010	3,561,101
Reclassification					
Debt investment securities from available for sale to amortised cost	(1,047)	-	(1,047)	(11)	(1,058)
Equities and other investments from available for sale to FVTPL	(2,513)	1,539	(974)	-	(974)
Equities from available for sale to FVOCI	(8,022)	8,022	-	-	-
Recognition of Expected Credit Losses under IFRS 9	6,964	(33,988)	(27,024)	(93)	(27,117)
Impact on adoption of IFRS 9	(4,618)	(24,427)	(29,045)	(104)	(29,149)
Opening balance under IFRS 9 (1 January 2018)	44,861	1,227,617	3,000,346	320,906	3,531,952

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

2018	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Debt securities	**2,168,487**	**460,505**	**14,000**	**2,642,992**
Equities and other investments	**44,979**	**57,463**	**83,787**	**186,229**
	2,213,466	**517,968**	**97,787**	**2,829,221**
Derivative financial instruments (Note 28)	**-**	**16,793**	**-**	**16,793**

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

25 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2018 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 31 December 2018 KD 000's	Net gains (losses) in the consolidated statement of income KD 000's
Debt securities	14,377	-	-	(379)	2	14,000	960
Equities and other investments	65,487	(6,470)	28,342	(4,287)	715	83,787	(1,522)
	79,864	(6,470)	28,342	(4,666)	717	97,787	(562)

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

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread of 4% (2017: 4%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

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

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

26 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	Country of incorporation	Principal business	Percentage ownership	
			2018	2017
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	59.5	58.4
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	98.5	98.5
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	99.9	99.9
National Bank of Kuwait (International) PLC	United Kingdom	Banking	100.0	100.0
National Bank of Kuwait France SA	France	Banking	100.0	-
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	100.0	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	85.5	85.5
Credit Bank of Iraq S.A.	Iraq	Banking	84.3	84.3
National Investors Group Holdings Limited	Cayman Islands	Investment Company	100.0	100.0
Watani Wealth Management Company	Saudi Arabia	Investment Management	100.0	-
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	93.3	93.3

At 31 December 2018, 38.1% (2017: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

During the year, the Group incorporated a 100% owned subsidiary, National Bank of Kuwait France SA, in France and contributed the existing business of the Paris branch of National Bank of Kuwait (International) PLC to National Bank of France SA. The Group also incorporated a 100% owned subsidiary, Watani Wealth Management Company, in Saudi Arabia with an objective to carry out investment fund management, portfolio management and related services.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in Note 32.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2018 KD 000's	2017 KD 000's
Accumulated balances of non-controlling interest	309,800	304,112
Profit attributable to non-controlling interest	22,330	19,137

26 SUBSIDIARIES (continued)

Summarised financial information of Boubyan Bank K.S.C.P. is as follows:

Summarised financial information	2018 KD 000's	2017 KD 000's
Assets	**4,344,778**	3,970,396
Liabilities	**3,858,818**	3,518,039
Net operating income	**139,721**	125,567
Results for the year	**56,210**	47,672
Other comprehensive loss for the year	**(1,755)**	(17)

Summarised cash flow information	2018 KD 000's	2017 KD 000's
Operating cash flow	**174,224**	175,394
Investing cash flow	**(120,017)**	(112,571)
Financing cash flow	**(20,818)**	(18,825)

During the year, the Group acquired additional interest in Boubyan Bank at a cost of KD 13,744 thousand. The difference between the cost of acquisition and reduction in the carrying value of non-controlling interest is charged to retained earnings.

During 2016, Boubyan Bank issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the "First Call Date") or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Dollar Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer's sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non- controlling interest in the consolidated statement of financial position.

27 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:

	2018 KD 000's	2017 KD 000's
Acceptances	**223,920**	144,001
Letters of credit	**456,359**	328,943
Guarantees	**3,707,656**	3,755,718
	4,387,935	4,228,662

27 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Irrevocable commitments to extend credit amount to KD 615,778 thousand (31 December 2017: KD 713,129 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 36,399 thousand (31 December 2017: KD 60,019 thousand).

28 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity. Profit rate swaps are also included in this category.

28 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (continued)

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2018			2017		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	40,062	27,814	2,354,863	20,989	37,845	1,947,427
Interest rate swaps (others)	429	408	85,995	962	926	91,050
Forward foreign exchange contracts	15,912	11,388	2,771,024	5,729	15,352	2,171,714
	56,403	39,610	5,211,882	27,680	54,123	4,210,191

Positive fair value is included in other assets (Note 16) and negative fair value is included in other liabilities (Note 19)

The Group's strategy is not to carry interest rate risk for long duration assets. The Group uses interest rate swaps to hedge its exposure to changes in the fair values due to interest rate risk on certain investments in fixed rate debt securities, fixed-rate corporate loans and fixed rate liabilities issued. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria. In fair value hedge relationships, the Group assesses whether the interest rate swaps designated in each hedging relationship is expected to be highly effective in offsetting changes in fair value of the hedged item attributable to interest rate risk using appropriate qualitative and quantitative methods. The Group generally seeks to fully match the critical terms (tenor, notionals, interest rate exposure, currency, interest payments frequency and payment periods) of the hedged item and hedging instrument. The Group minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.

29 RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

29 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties			
	2018	2017	2018	2017	2018 KD 000's	2017 KD 000's
Board Members						
Loans (secured)	3	3	15	15	115,322	125,328
Contingent liabilities	-	-	9	12	27,860	21,508
Credit cards	6	7	11	12	56	66
Deposits	9	9	59	69	34,207	37,184
Collateral against credit facilities	3	3	13	14	315,165	278,512
Interest and fee income					4,876	5,864
Interest expense					168	100
Purchase of equipment and other expenses					5	23
Executive Officers						
Loans	2	4	6	6	2,552	2,795
Contingent liabilities	4	4	-	-	2	2
Credit cards	13	12	4	2	87	47
Deposits	13	13	37	31	6,141	3,782
Interest and fee income					119	100
Interest expense					59	5

	2018 KD 000's	2017 KD 000's
Associates		
Placements	7,286	-

Details of compensation to key management personnel are as follows:

	2018 KD 000's	2017 KD 000's
Salaries and other short term benefits	10,792	10,048
Post-employment benefits	377	517
Share based compensation	1,138	707
	12,307	11,272

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

30 RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

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

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

30.1 Credit risk

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All significant policies relating to credit risks are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

30.1.1 Assessment of expected credit losses

Definition of default

The Group considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group
- to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk
- Management purposes
- retail facilities from commencement of legal recourse

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Group considers investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Group considers externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Group considers a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Group considers a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Group for consideration for classifying the facility in stage 2/stage 1.

Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Group assess as whether there has been a significant increase in credit risk since 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 significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. Retail facilities however, migrate to stage 2 based on days past due movement and the IFRS 9 presumption of 30 days past due is rebuttable but not rebutted.

The Group considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Group applies qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents 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 probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Group calculates ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

The Group in estimating ECL for credit facilities has taken into consideration the following key parameters based on inputs from CBK:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Group uses industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Group also uses external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Group's estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Group converts the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Group assesses the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Group at the time of default. The Group considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

30 RISK MANAGEMENT (continued)
30.1 Credit risk (continued)
30.1.1 Assessment of expected credit losses (continued)

Incorporation of forward-looking information

The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models . Key economic variables include, but not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure . These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL . The Group employs statistical models to incorporate macro-economic factors on historical default rates. The Group considers 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographical segments and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity to changes to forecasts of macro-variables and also together with changes to the weights assigned to the scenarios. The impact on ECL is not material. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

30.1.2 Maximum exposure to credit risk

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2018		2017	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	15,503,402	10,466,891	14,502,609	9,815,314
Contingent liabilities	4,387,935	4,193,953	4,228,662	4,020,092

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

30.1.3 Risk concentration of the maximum exposure to credit risk

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2018 is 17% (2017: 17%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

30.1.3 Risk concentration of the maximum exposure to credit risk (continued)

2018 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	2,846,422	898,218	905,902	463,420	-	5,113,962
Central Bank of Kuwait bonds	809,871	-	-	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	-	-	872,042
Loans, advances and Islamic financing to customers	14,255,077	267,729	441,007	268,217	271,372	15,503,402
Investments in debt securities – Amortised cost	830,578	583	-	17,650	-	848,811
Investments in debt securities – FVOCI	2,001,761	21,126	57,162	543,733	19,210	2,642,992
Other assets	153,289	4,578	58,070	4,395	1,430	221,762
	21,769,040	1,192,234	1,462,141	1,297,415	292,012	26,012,842
Commitments and contingent liabilities (Note 27)	2,531,710	289,387	1,358,733	810,244	13,639	5,003,713
	24,300,750	1,481,621	2,820,874	2,107,659	305,651	31,016,555

2017 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	2,674,244	1,085,400	992,856	284,079	-	5,036,579
Central Bank of Kuwait bonds	655,591	-	-	-	-	655,591
Kuwait Government treasury bonds	1,076,211	-	-	-	-	1,076,211
Loans, advances and Islamic financing to customers	13,394,320	291,674	405,990	168,554	242,071	14,502,609
Held to maturity investments	123,234	-	-	15,259	-	138,493
Available for sale investments	2,287,985	44,212	107,725	502,753	20,173	2,962,848
Other assets	123,877	2,486	31,569	3,227	1,403	162,562
	20,335,462	1,423,772	1,538,140	973,872	263,647	24,534,893
Commitments and contingent liabilities (Note 27)	2,458,973	307,776	1,358,135	767,990	48,917	4,941,791
	22,794,435	1,731,548	2,896,275	1,741,862	312,564	29,476,684

30 RISK MANAGEMENT (continued)
30.1 Credit risk (continued)
30.1.3 Risk concentration of the maximum exposure to credit risk (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2018 KD 000's	2017 KD 000's
Industry sector		
Trading	2,163,383	2,300,304
Manufacturing	2,368,919	2,224,598
Banks and other financial institutions	9,908,859	9,224,294
Construction	1,404,411	1,308,088
Real Estate	3,280,586	3,078,956
Retail	5,185,575	4,869,811
Government	3,361,079	3,318,470
Others	3,343,743	3,152,163
	31,016,555	29,476,684

30.1.4 Credit quality per class of financial assets

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Group's credit rating system.

2018	Neither past due nor impaired			
	High KD 000's	Standard KD 000's	Past due or impaired KD 000's	Total KD 000's
Balances and short term deposits with banks	2,750,320	-	-	2,750,320
Central Bank of Kuwait bonds	809,871	-	-	809,871
Kuwait Government treasury bonds	872,042	-	-	872,042
Deposits with banks	2,146,666	218,279	-	2,364,945
Loans, advances and Islamic financing to customers	13,989,649	1,678,633	340,828	16,009,110
Investments in debt securities – Amortised cost	23,083	851,331	-	874,414
Investments in debt securities – FVOCI	1,972,567	670,425	-	2,642,992
	22,564,198	3,418,668	340,828	26,323,694

30.1.4 Credit quality per class of financial assets (continued)

2017	Neither past due nor impaired		Past due or impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's		
Balances and short term deposits with banks	2,548,391	-	-	2,548,391
Central Bank of Kuwait bonds	655,591	-	-	655,591
Kuwait Government treasury bonds	1,076,211	-	-	1,076,211
Deposits with banks	2,299,426	188,762	-	2,488,188
Loans, advances and Islamic financing to customers	13,154,016	1,644,268	319,838	15,118,122
Held to maturity investments	15,258	123,235	-	138,493
Available for sale investments	1,822,560	1,140,288	-	2,962,848
	21,571,453	3,096,553	319,838	24,987,844

30.1.5 Ageing analysis of past due or impaired loans, advances and islamic financing to customers

	Corporate		Retail		Total	
2018	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**	**Past due and not impaired KD 000's**	**Past due and impaired KD 000's**
Up to 30 days	**41,808**	**3,954**	**43,101**	**33**	**84,909**	**3,987**
31 - 60 days	**7,367**	**15**	**18,725**	**10**	**26,092**	**25**
61 - 90 days	**4,445**	**86**	**3,688**	**15**	**8,133**	**101**
91 - 180 days	**-**	**24,061**	**-**	**25,638**	**-**	**49,699**
More than 180 days	**-**	**89,574**	**-**	**78,308**	**-**	**167,882**
	53,620	**117,690**	**65,514**	**104,004**	**119,134**	**221,694**

	Corporate		Retail		Total	
2017	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's
Up to 30 days	30,092	1,678	41,061	-	71,153	1,678
31 - 60 days	6,551	158	18,252	-	24,803	158
61 - 90 days	7,018	-	2,772	-	9,790	-
91 - 180 days	-	42,882	-	23,794	-	66,676
More than 180 days	-	73,915	-	71,665	-	145,580
	43,661	118,633	62,085	95,459	105,746	214,092

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 2018 was KD 115,196 thousand (2017: KD 91,283 thousand).

30.2 Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2018	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,038,888	240,001	52,060	5,330,949
Central Bank of Kuwait bonds	452,789	357,082	-	809,871
Kuwait Government treasury bonds	35,433	227,804	608,805	872,042
Loans, advances and Islamic financing to customers	4,170,497	2,091,383	9,241,522	15,503,402
Investments measured at amortised cost	57,787	145,830	645,194	848,811
Investments measured at FVOCI	441,264	205,917	2,057,810	2,704,991
Investments carried at fair value through statement of income	28,241	-	95,989	124,230
Investment in associates	-	-	31,425	31,425
Land, premises and equipment	-	-	362,801	362,801
Goodwill and other intangible assets	-	-	578,973	578,973
Other assets	148,402	34,397	77,646	260,445
	10,373,301	3,302,414	13,752,225	27,427,940
Liabilities and equity				
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
Other liabilities	349,948	3,185	98,157	451,290
Share capital and reserves	-	-	2,948,913	2,948,913
Proposed cash dividend	214,344	-	-	214,344
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	327,353	327,353
	18,398,285	4,156,556	4,873,099	27,427,940

30 RISK MANAGEMENT (continued)
30.2 Liquidity risk (continued)

2017	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Assets				
Cash and deposits with banks	5,007,709	169,660	54,459	5,231,828
Central Bank of Kuwait bonds	429,162	226,429	-	655,591
Kuwait Government treasury bonds	54,833	145,648	875,730	1,076,211
Loans, advances and Islamic financing to customers	4,490,941	1,775,826	8,235,842	14,502,609
Held to maturity investments	43,812	56,556	38,125	138,493
Available for sale investments	603,357	211,760	2,355,978	3,171,095
Investments carried at fair value through statement of income	39,408	-	-	39,408
Investment in associates	-	-	63,187	63,187
Land, premises and equipment	-	-	324,277	324,277
Goodwill and other intangible assets	-	-	581,906	581,906
Other assets	104,922	35,773	109,301	249,996
	10,774,144	2,621,652	12,638,805	26,034,601
Liabilities and equity				
Due to banks and other financial institutions	5,158,633	1,604,734	705,936	7,469,303
Customer deposits	11,338,972	1,936,062	504,573	13,779,607
Certificates of deposit issued	394,749	91,559	4,527	490,835
Global medium term notes	-	-	221,173	221,173
Subordinated Tier 2 bonds	-	-	124,734	124,734
Other liabilities	285,280	449	102,119	387,848
Share capital and reserves	-	-	2,854,898	2,854,898
Proposed cash dividend	174,493	-	-	174,493
Perpetual Tier 1 Capital Securities	-	-	210,700	210,700
Non-controlling interests	-	-	321,010	321,010
	17,352,127	3,632,804	5,049,670	26,034,601

30 RISK MANAGEMENT (continued)
30.2 Liquidity risk (continued)

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

2018	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks and other financial institutions	6,120,935	1,707,497	333,250	8,161,682
Customer deposits	11,431,803	2,419,305	693,630	14,544,738
Certificates of deposit issued	330,899	118,132	4,747	453,778
Global medium term notes	-	6,256	242,871	249,127
Subordinated Tier 2 bonds	-	6,406	162,718	169,124
	17,883,637	4,257,596	1,437,216	23,578,449
Contingent liabilities and commitments				
Contingent liabilities	933,619	1,277,533	2,176,783	4,387,935
Irrevocable commitments	77,355	166,203	372,220	615,778
	1,010,974	1,443,736	2,549,003	5,003,713
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	2,196,769	573,000	110,312	2,880,081
Contractual amounts receivable	2,194,424	576,618	112,342	2,883,384

2017	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
Financial Liabilities				
Due to banks and other financial institutions	5,159,461	1,620,848	738,165	7,518,474
Customer deposits	11,354,114	1,973,989	561,704	13,889,807
Certificates of deposit issued	395,310	92,708	4,742	492,760
Global medium term notes	-	6,224	247,939	254,163
Subordinated Tier 2 bonds	-	6,250	168,048	174,298
	16,908,885	3,700,019	1,720,598	22,329,502
Contingent liabilities and commitments				
Contingent liabilities	870,969	1,130,897	2,226,796	4,228,662
Irrevocable commitments	118,216	140,253	454,660	713,129
	989,185	1,271,150	2,681,456	4,941,791
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,595,679	460,016	197,832	2,253,527
Contractual amounts receivable	1,597,771	458,247	196,146	2,252,164

30.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

30.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of investments in debt securities classified as FVOCI/available for sale. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2018		2017	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Currency	Movement in Basis points				
KWD	+25	7,810	-	7,729	-
USD	+25	1,333	(17)	728	(69)
EUR	+25	1,165	-	1,930	-
GBP	+25	604	-	1,029	-
EGP	+25	67	(8)	328	-

30.3.2 Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

30 RISK MANAGEMENT (continued)
30.3 Market risk (continued)
30.3.2 Foreign exchange risk (continued)

The table below analyses the effect on profit of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase.

		2018	2017
Currency	% Change in currency rate	Effect on profit KD 000's	Effect on profit KD 000's
USD	+5	(515)	181
GBP	+5	49	(2)
EUR	+5	(7)	34
EGP	+5	(75)	(181)
Other	+5	(122)	(53)

30.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through profit or loss) and on equity (as a result of change in the fair value of equity investments classified as FVOCI/ available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2018		2017	
Market indices	% Change in equity price	Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	117	16	-	219
Qatar stock market	+5	132	-	-	93
UAE stock indices	+5	166	3	-	264
Saudi stock exchange	+5	638	-	-	512

30.4 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

31 CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2018 KD 000's	2017 KD 000's
Risk Weighted Assets	17,935,150	16,591,706
Capital required	2,690,273	2,488,756
Capital available		
Common Equity Tier 1 capital	2,478,695	2,362,174
Additional Tier 1 capital	257,780	253,048
Tier 1 capital	2,736,475	2,615,222
Tier 2 capital	353,724	337,052
Total capital	3,090,199	2,952,274
Common Equity Tier 1 capital adequacy ratio	13.8%	14.2%
Tier 1 capital adequacy ratio	15.3%	15.8%
Total capital adequacy ratio	17.2%	17.8%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2018 KD 000's	2017 KD 000's
Tier 1 capital	2,736,475	2,615,222
Total exposures	29,906,685	28,394,001
Leverage ratio	9.2%	9.2%

32 FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2018, funds under management were KD 4,390 million (2017: KD 3,892 million).

GROUP DIRECTORY

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Retail Banking
Ext: 3034
Fax: 2241 6738

Domestic Branches
Ext: 2592
Fax: 2246 7929

Alternative Channels
Ext: 3393
Fax: 2246 7929

Direct Sales
Ext: 5003
Fax: 2259 5522

Consumer Lending
Ext: 3171
Fax: 2224 6865

Marketing
Ext: 3036
Fax: 2259 5679

Consumer Credit Collection
Ext: 2181
Fax: 2259 5671

Private Banking Group
Ext: 2226
Fax: 2241 8415 or
2224 6619

Domestic Corporate Banking
Ext: 2116
Fax: 2224 6643

Foreign Corporate, Oil and Trade Finance Group
Ext: 2307
Fax: 2242 6813

Treasury Group
Ext: 3566
Fax: 2241 9720

Credit Risk Management Group
Ext: 2417
Fax: 2246 4162

Economic Research Group
Ext: 5364
Fax: 2224 6973

Legal Affairs Group
Ext: 3091
Fax: 2244 5098

Human Resources
Ext: 5162
Fax: 2244 3250

International Banking Group

Regional Institutional Banking
Ext: 5328
Fax: 2224 6977

Please refer to international network for a complete listing

Operations Group
Ext: 3060
Fax: 2245 9233

Information Technology Group
Ext: 2711
Fax: 2245 9233

Group Financial Control
Ext: 3009
Fax: 2242 2730

International Legal Affairs
Ext: 2065
Fax: 2243 6208

Executive Office
Ext: 2230
Fax: 2246 2469

Public Relations
Ext: 3166
Fax: 2259 5804

Media Relations
Ext: 2789
Fax: 2246 2469

Advertising
Ext: 2665
Fax: 2259 5805

Group Internal Audit
Ext: 5400
Fax: 2243 3835

LOCAL BRANCHES

Ahmadi
Ahmed Al-Jaber
Airport
Ali Sabah Al-Salem
Al Hamra Tower
Al Rihab
Al Tadhamoun (Farwaniya)
Andalus
Ardiya
Arraya 2
Avenues
Bayan
Camp Arifjan
Cinema Al-Salmiya
Dahyat Abdullah Al-Salem
Daiyah
Dasma
Doha
Fahad Al-Salem
Fahaheel
Fahaheel Al Sahely
Faiha
Farwaniya
Fintas
Ghazali
Grand Avenues
Hadiya
Hawalli
Kheitan
Jabriya
Jahra
Jahra Commercial Branch
Jleeb Al-Shuyoukh
Kaifan
Kuwait National Petroleum Company
Kuwait Oil Company
Kuwait Petroleum
Corporation
Ministries Complex
Mishref
MTC Headquarters
Mubarak Al-Kabeer
Nuzha
Othman
Qadisiya
Qurain
Qurtuba
Ras Al-Salmiya
Rawdha
Riqqa
Rumaithiya
Saad Al-Abdullah
Sabah Al-Nasser
Sabah Al-Salem
Sabahiya
Sabhan
Salmiya
Salwa
Shamiah
Sharq
Shuwaikh
Shuwaikh Medical
Social Security (PIFSS)
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South Surra
Surra
Watya
Yarmouk

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Call Center Tel.: 1801801

For More Information About National Bank of Kuwait:

NBKPage

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National Bank of Kuwait

1801801

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