National Bank of Kuwait

Annual Report and Financial Statements 2015

Strong Growth and Promising Future

Content

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

Vision and Mission Statement

Our Vision

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

Our Mission

To deliver world class products and 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

Financial Highlights

(In USD million)	2015	2014	2013	2012	2011
Net interest income & net income from Islamic financing	1,747	1,546	1,488	1,311	1,255
Non-interest income	654	632	576	831	525
Operating expenses	773	709	682	605	534
Net profit	930	863	785	1,005	996
Total assets	77,752	71,776	61,285	54,341	44,899
Assets under management	11,097	10,537	10,105	9,282	8,336
Shareholders' equity excluding proposed dividend	8,591	8,277	7,823	7,573	7,142
Market capitalization	13,043	14,126	13,153	13,516	14,493
Return on beginning equity excluding proposed dividends (%)	11.0	11.0	10.4	14.1	14.6
Year-end price per share (US$)	2.6	3.0	2.9	3.2	3.7
Basic earnings per share (Cents)	18	17	16	20	20
Proposed cash dividends (Cents)	10	10	10	10	13
Proposed bonus shares (%)	5	5	5	5	10

NBK at a Glance

NBK was established in 1952 as the first local bank and the first shareholding company in Kuwait and the Gulf region. Over the years, NBK has remained the leading financial institution in Kuwait and has successfully extended its well-established franchise throughout the Middle East. NBK currently operates through a large international network covering the world's leading financial and business centers across 15 countries.

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

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

Highest Credit Ratings in the Middle East

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

Amongst the World's 50 Safest Banks

Global Finance

NBK Across the Globe

NBK maintained its lead in the domestic market where it has a dominant position. The bank strengthened its position in the region, where its expansion is part of a strategy to diversify revenue streams and to achieve growth. NBK made further consolidation of its regional operations, bringing the full benefits of its unrivalled core management and treasury function to extract synergies and enable closer integration. NBK's network now comprises 162 branches, subsidiaries and representative offices in 15 countries on four continents, of which 8 are in the Middle East.

1 **KUWAIT** (No. of branches 68)
Tel: +965 2242 2011
Fax: +965 2259 5804

WATANI FINANCIAL BROKERAGE COMPANY
Tel: +965 2259 4948
Fax: +965 2241 6922

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

2 **IRAQ** (No. of branches 10)
Credit Bank of Iraq
Tel: +964 1 7182198 / 7191944
Tel: +964 1 7188406 / 7171673
Fax: +964 1 7170156

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

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

5 SAUDI ARABIA
Jeddah Branch
Tel:+966 2 603 6300
Fax: +966 2 603 6318

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

7 UAE (No. of branches 2)
Tel: +971 4 3161600
Fax:+971 4 388 8588

NBK Capital - UAE
Tel: +971 4 3652800
Fax: +971 4 3652805

8 EGYPT (No. of branches 40)
NBK Egypt
Tel: +202 261 49300
Fax:+202 261 33978

NBK Capital - Egypt
Tel: +202 279 85900
Fax:+202 279 85904 / 05

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

10 SWITZERLAND
Tel: +41229064343
Fax: +41229064399

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

12 UNITED KINGDOM
(No. of branches 2)
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

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

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

15 SINGAPORE
Singapore Branch
Tel: +65 6222 5348
Fax: +65 6224 5348

Board of Directors

Nasser Musaed Abdullah Al-Sayer
Chairman

Ghassan Ahmed Saoud Al-Khalid
Vice Chairman

Hamad Abdul Aziz Al-Sager
Board Member

Yacoub Yousef Al-Fulaij
Board Member

Hamad Mohamed Al-Bahar
Board Member

Muthana Mohamed Ahmed Al-Hamad
Board Member

Haitham Sulaiman Hamoud Al-Khaled
Board Member

Loay Jassim Mohammed Al-Kharafi
Board Member

Emad Mohamed Al-Bahar
Board Member

Group's Board of Directors:

Mr. Nasser Musaed Al-Sayer (Chairman)

Mr. Nasser Musaed Al-Sayer has been a Board Member of NBK since 1980 and was appointed as the Board Vice-Chairman in 1993 and Chairman since August 2014. He is the Chairman of the Board Corporate Governance Committee.

Mr. Al-Sayer is also a Board member of the Kuwait Banking Association since 1999 where he was also the Chairman from 1999 to 2006. He was also a member of the Supreme Council for Planning & Development (Chaired by H.E. The Prime Minister of Kuwait), and the Finance and Investment Committee of the Kuwait Chamber of Commerce and Industry since 2003. Mr. Al Sayer was the Deputy Director-General (1971-1978) and a Board member of the Kuwait Fund for Arab Economic Development from 1994 to 2000.

Mr. Al-Sayer brings to the Board considerable experience in banking, investment, strategic planning and governance from both private and public sectors.

Mr. Al-Sayer holds Bachelor of Arts degree in Economics from Oklahoma State University, USA.

Mr. Ghassan Ahmed Al-Khalid (Vice Chairman)

Mr. Ghassan Ahmed Al Khalid has been a board member of NBK since 1987 and Vice-Chairman since August 2014. He is the Chairman of the Board Risk Committee and the Chairman of the Board Remuneration & Nomination Committee.

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

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

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

Mr. Hamad Abdul Aziz Al-Sager was a Board Member of NBK from 1975 to 1976 and, also, since 1983 to date. He is also a member of the Board Credit Committee and Board Corporate Governance Committee.

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

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

Mr. Yacoub Yousef Al-Fulaij (Board Member)

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

Having been previously a General Manager at the Bank, Mr. Al-Fulaij has broad experience in banking activities, including risk management and internal controls.

Mr. Al-Fulaij holds a Bachelor of Arts degree in Business Administration from the University of Miami, USA.

Mr. Hamad Mohamed Al-Bahar (Board Member)

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

Mr. Al-Bahar was on the Board of the Kuwait Investment Company from 1981 to 1991 where he served as the Chairman and Managing Director. He was also the Managing Director of Bank of Bahrain and Kuwait. He has extensive experience in Investment Banking and Assets Management, in addition to internal controls.

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

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

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

Mr. Al-Hamad is a Board member of Alwatyah United Real Estate Company and has been the Chairman of Future Communication Company International from 2005 till 2014. He was previously a Board member of Arab European Company for Financial Management (AREF) from 1987 till 1993 and served on the Board of The Commercial Bank of Kuwait from 1993 till 1997 and the United Bank of Kuwait from 1996 till 1997. He has considerable experience in Finance and Business Economics.

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

Mr. Haitham Sulaiman Al-Khaled (Board Member)

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

Mr. Al-Khaled is a Board Member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan International Real Estate Company since 2010 and has been the Chairman since 2014. Mr. Al Khaled previously held the following positions at the leading telecom operator Zain; Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer amongst other responsibilities.

He has a rich experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls.

Mr. Al-Khaled holds a Bachelor of Science degree in Electronic Engineering from Kuwait University, Kuwait.

Mr. Loay Jassim Al-Kharafi (Board Member)

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

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

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

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

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

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

Mr. Emad Mohamed Al-Bahar (Board Member)

In August 2014 Mr. Emad Mohamed Al-Bahar joined National Bank of Kuwait as a Board Member following the death of the late Chairman Mr. Mohamed AbdulRahman 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 the late Chairman Mr. Mohamed AbdulRahman Al Bahar Group, which is one of the oldest trading conglomerates in Kuwait and the Middle East.

In addition to being a member of the Executive Board and its strategic decision making team at Al-Bahar, he is also a member of the Board of Al Ahlia Insurance Company Kuwait and in other Companies abroad.

Mr. Emad Mohamed Al-Bahar holds a Management Degree from the American University of Washington, USA.

Chairman's Message

Strong Growth and Inspiring Future

Dear Shareholders,

On behalf of members of the board and myself, I present to you with pleasure the 63rd National Bank of Kuwait Annual Report. The report reviews the most important achievements of the Bank last year; which culminated in strong earnings and high returns to shareholders. It is a testament to NBK's continued leadership, solid core business income streams, high asset quality trends, strong position in the domestic market and sustained cost controls. In 2015, NBK Group delivered very strong results, maximizing value for its shareholders.

Kuwait saw the implementation of several government mega projects in 2015, representing a new era of growth and development for NBK. As Kuwait entered a new phase of economic growth and development, NBK's leadership in financing mega governmental projects strengthened the Bank's position in the domestic market as the bank of choice for institutions and large corporates.

Meanwhile, NBK continued approaching regional markets as an integrated financial services provider, allowing the Bank to achieve further revenue synergies within the Group and reflect the strength of the Bank's brand and reputation in the region and across the globe.

Strong Financial Performance and Growth

National Bank of Kuwait Group continued its strong performance during 2015, reporting a net profit of KD 282.2 million with a growth of 7.8% year-on-year. This result once again confirms the Bank's conservative strategy, prudent risk management and commitment to the highest standards across all business lines.

The 2015 results reflect the strong growth that NBK achieved across all business lines. Net operating income grew by 10.2% to KD 728.8 million. Loans and advances grew by 13.8% to KD 13.6 billion, reflecting the accelerated pace of government development projects' implementation and the overall improvement in the operating environment. In turn, deposits grew by 7.1% to KD 12.1 billion, reaffirming the reputation of NBK as a trustworthy and safe bank.

NBK's performance, strength and durability are reflected in all financial indicators. The Bank achieved strong returns on its assets and shareholders' equity in 2015. Return on average assets reached 1.22% and return on average equity reached 10.5% as of 31 December 2015. Capitalization remained very strong with the Basel III Capital Adequacy Ratio reaching 16.8% at the end of December 2015, comfortably higher than the regulatory requirements.

NBK continued to improve its asset quality ratios with the NPL/Gross Loans ratio dropping to 1.34% as of year-end 2015 down from 1.50% a year earlier, and the NPL coverage ratio increasing to 322%, up from 276% at year-end 2014.

Total Group assets reached KD 23.6 billion, recording a growth of 8.3% year-on-year. In addition, total shareholders' equity reached KD 2.6 billion, growing at 3.8% year-on-year.

NBK Board of Directors has recommended the distribution of a 30 fils cash dividend per share, representing 30% of the nominal share value. The board has also recommended the distribution of a 5% bonus share (five shares for every 100 shares owned) for the year 2015.

Highest Rated and Safest

NBK continues to enjoy one of the highest credit ratings in the MENA region and iinternationally with high ratings from Moody's, Standard & Poor's and Fitch Ratings.

Despite the downgrade of several ratings in the region due to economic and financial conditions, NBK maintained all its ratings. Moody's affirmed NBK's long term rating of Aa3, Fitch Ratings assigned NBK AA-ratings and the Bank earned an A+ from Standard and Poor's.

In recognition of NBK's prestigious reputation, the Bank maintained its place among The World's 50 Safest Banks list for the 10th consecutive time. NBK remains the only Kuwaiti bank on this list; a recognition that the Bank cherishes.

Mega Projects Gain Momentum

During the year, the Kuwaiti government accelerated the pace of project awards and execution leading to a pickup in economic activity and credit growth. On the back of that, NBK continued to position itself to take advantage of growth opportunities highlighted by these projects as the premier bank of choice for both domestic and foreign corporates doing business in Kuwait. During the year, NBK provided support for all of the EPC contractors in Kuwait's largest development project ever, the USD $13.2 billion KNPC Azzour Refinery Project, with their banking requirements. NBK also was chosen as the initial Underwriter and Mandated Lead Arranger in the USD $6 billion Equate syndication deal.

Strategic Relationships

NBK also continued to build on the Bank's strategic client relationships, making NBK the first choice for expansion plans and thus increasing the Bank's market share. NBK landed several prominent deals including the role of Mandated Lead Arranger for the syndicated financing facility of USD $400 million for OSN, the region's leading Pay-TV network. The syndicated facility included 11 international and regional banks, with NBK being the only Kuwaiti bank participating, a sound testament to NBK's international reach and capabilities in handling sophisticated deals and building relationships with other international lenders.

NBK also participated in an award-winning syndicated facility for global logistics provider, Kuwait-based Agility. The syndicated facility won the "Corporate Finance Award" in the 2015 ACT Middle East Deals of the Year Awards for the impressive structure of the deal.

Those deals reflect the prestigious reputation of NBK and the high confidence that the Bank enjoys across the local, regional and international banking industries. It also reflects the Bank's high status and position to benefit from growth opportunities on the back of the acceleration in the implementation of development projects in Kuwait.

Stability and Solidity Despite Turmoil

International Banking Group (IBG) achieved a high rate of accomplishments since NBK launched its regional expansion strategy in the 1980s. The strong results achieved by foreign subsidiaries and branches reflect the success of NBK to diversify its sources of income and its successful regional and international expansion.

IBG profits increased its contribution to the Group, accounting for 27% of total group profits in 2015, in spite of the continuing operational challenges in several regional markets and the effect of lower oil prices in the GCC markets. Our operations in the GCC markets have proven their ability to withstand challenges and show promising growth prospects, especially in the Saudi and UAE markets.

One of the most prominent decisions taken by the Bank at the regional level was the decision to exit the Bank's investment in International Bank of Qatar (IBQ). The Bank concluded the sale of its 30% stake in IBQ during the first quarter of 2015 as the potential to increase its share to a controlling stake diminished. The exit was very smooth and the Bank achieved strong returns from its investment. The Qatari market is still of interest, however the exit aims to enhance NBK's ability to seize new opportunities in the Qatari market through alternative channels.

The Egyptian market remains a key strategic market for NBK. The Bank is realistically optimistic about the positive prospects the Egyptian market offers, in addition to promising opportunities for growth after the return of stability in the country. The Bank rebranded Al Watani Bank of Egypt to NBK-Egypt furthering integration and unification at the Group level. We believe that NBK-Egypt will continue to deliver strong performance as the political situation stabilizes and view Egypt as a long-term growth market.

Islamic Banking

Boubyan Bank represents a key component in our domestic strategy. Since turning Boubyan Bank into a fully consolidated subsidiary of NBK Group in 2012 with a 58.4% ownership, the Bank has successfully achieved profitable targets and is the fastest growing bank among all Kuwaiti banks. Boubyan Bank will continue providing NBK Group with a market advantage in Kuwait as the only bank domestically with access to both conventional and Islamic banking.

Boubyan Bank is witnessing a steady increase in market share year after year and achieving growth in all business aspects. Boubyan Bank will continue conveying NBK's culture in following a conservative strategy and customer-centric focus on products and services. NBK plans to continue with full commitment to Boubyan Bank to further strengthen its market position among domestic financial institutions and increase its contribution to the Group while maintaining the independence of both banks.

Risk Management and Governance

Despite the significant challenges posed by political, economic and social upheavals, regionally and locally, National Bank of Kuwait was able to continue its strong performance and to grow at a stable pace thanks to a conservative strategy rooted in the Bank's culture and leadership and the Bank's commitment to strict corporate governance standards.

Through a proven track record that stretches for more than six decades of stability, reliability and expert leadership, the Bank has weathered recent regional and global financial crises with resiliency. The National Bank of Kuwait continues its commitment to the principles of transparency, accountability and protection of shareholders' rights as an integral part of the Bank's culture and philosophy.

Capital Issuance

In 2015, NBK successfully concluded the issuance of USD 700 million additional Tier 1 securities and the issuance of KD 125 million Subordinated Tier 2 bonds. Both issuances saw significant interest as they attracted two times coverage, underlying the credit strength of NBK. The issuances are the first in the MENA region that carry an investment grade rating from an international rating agency (Moody's). The issuances aim to strengthen NBK's capital base in accordance with the Central Bank of Kuwait (CBK) requirements under its Basel III framework. Capital Adequacy Ratio reached 16.8% as of end-December 2015 under the Basel III regime, which is comfortably higher than regulatory requirements.

Human Wealth

There is no doubt that NBK gains strength primarily from its human resources. For that, NBK is proud to be one of the largest employers of Kuwaiti nationals in the private sector.

During 2015, the Bank affirmed its investment in the development of human wealth. NBK hit an all-time high rate with its Kuwaitization program to localize and increase the national employment rate; the Bank hired about 300 Kuwaiti citizens in 2015, achieving a market-leading Kuwaitization rate of 66% of NBK's workforce.

As part of NBK's policy to develop the skills and capabilities of staff, the Bank provided more than 1,300 training opportunities to develop all employee requirements to become effective in their roles. The Human Resources Group also partnered with several academic institutions and universities like Harvard and the American University of Beirut to develop NBK's young future leaders to ensure the continuity and sustainability of the Bank.

Absolute Commitment to CSR

Confirming its commitment to corporate social responsibility, NBK didn't spare any effort in supporting charitable, educational, humanitarian and social activities. The NBK Children's Hospital remains an icon of the Bank's social contributions. The Bank continued with its commitments by establishing the first specialized center for marrow transplantation in Kuwait in the Children's Hospital. The move aims to complement the ongoing development of the hospital which was inaugurated in 2000 as the first specialized hospital for the treatment of children suffering from various forms of cancer. Moreover, the Bank continued to support various charities and humanitarian organizations such as Bayt Abdullah Children's Hospice, the Kuwait Red Crescent and LOYAC.

For more than two decades, NBK continues its Ramadan Iftar campaign as well as the continuous commitment and support for activities aimed at protecting and preserving the environment, supporting education and sports activities like NBK's Annual Walkathon.

Thanks and appreciation

Finally, on behalf of the board and executive management of the Bank, I would like to profoundly thank the authorities for their continued support of Kuwait's economic stability and growth. We are also deeply indebted to the Central Bank of Kuwait for its continued leadership, support and guidance.

We would like to thank our shareholders and customers for their continued support of and belief in NBK as the leading Kuwaiti bank and a top financial institution in the region.

We also very much appreciate the dedication of our executive management team and their continued leadership. We would also like to thank our dedicated employees for their hard work and professionalism. NBK deeply believes that our human capital is the greatest source of our wealth and success and we will continue to develop it to ensure a bright and profitable future.

Nasser Musaed Abdulla Al-Sayer

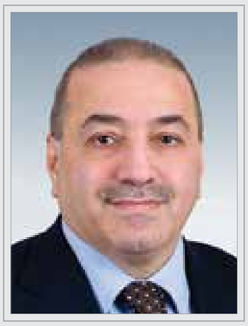
Chairman of the Board of Directors

Executive Management

Isam J. Al-Sager
Group Chief Executive Officer

Shaikha K. Al-Bahar
Deputy Group Chief Executive Officer

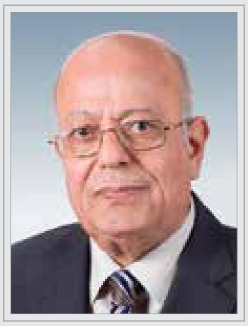
Salah Y. Al-Fulaij
Chief Executive Officer – Kuwait



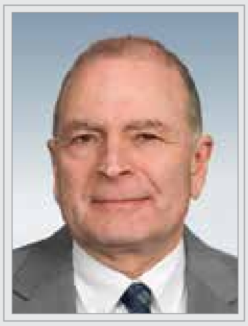
Georges Richani
General Manager
International Banking Group

Jim Murphy
Group Chief Financial Officer

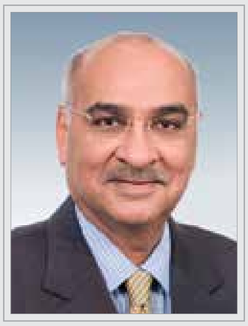
Parkson Cheong
Group Chief Risk Officer



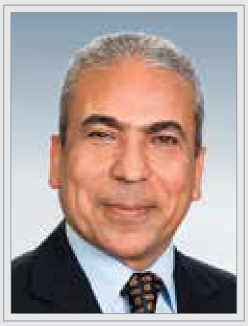
Dr. Soliman Abdel-Meguid
General Councel
Head Legal Affairs Group



Dr. Elias Bikhazi
Group Chief Economist
Economic Research

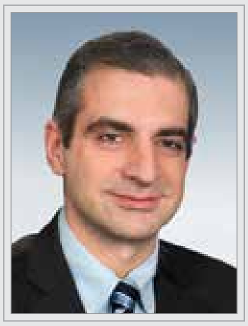


Pradeep Handa
General Manager Foreign Corporate,
Oil & Trade Finance Group



Mustafa Al Gindi
General Manager - Corporate
Banking Group

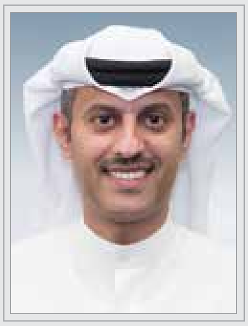
Malek J. Khalife
General Manager - Private
Banking Group



Dimitrios Kokosioulis
General Manager -
IT & Operations Group

Carl Ainger
Group Chief Internal Auditor

Emad Al-Ablani
General Manager -
Human Resources



Soliman Barrak Al-Marzouq
General Manager-Group Treasury

Group's Senior Management

Mr. Isam Al-Sager

(Group Chief Executive Officer)

Mr. Issam 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 the Chairman of NBK Capital and Chairman of NBK Egypt. He also serves on the Board of Directors of NBK (International) PLC, United Kingdom; NBK Properties (Jersey) Limited; NBK Trustees (Jersey) Limited and NIG Asian Investment Co.

Mr. Al-Sager holds a Bachelor of Science degree in Business Administration from California State Polytechnic University in USA.

Ms. Shaikha K. Al-Bahar

(Deputy Chief Executive Officer)

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

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

Mr. Salah Y. Al-Fulaij

(Chief Executive Officer – Kuwait)

Mr. Salah Al Fulaij joined NBK in 1985 and is now the Chief Executive Officer – Kuwait. He is a member of various Management Committees. Mr. Salah Al Fulaij was the Chief Executive Officer of NBK Capital for the years (2007-2014) and held before this the position of Group General Manager of Treasury and Investments Services.

Mr. Al Fulaij is a graduate of the University of Miami where he received his bachelor degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

Mr. Georges Richani

(General Manager, International Banking Group)

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

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

Mr. Richani holds a Bachelor of Science degree from the American University of Beirut, Lebanon and a Masters degree in Business Administration in Finance with distinction from the City of London Business School. He has participated in a number of Executive Programs at Harvard Business School, Stanford Graduate School of Business, and Duke University.

Mr. Jim Murphy

(Group Chief Financial Officer)

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

Prior to joining NBK, Mr. Murphy was Head of Management Accounting for Ireland and UK at a leading Irish bank. He has extensive experience in finance and banking.

Mr. Murphy is a Chartered Management Accountant (UK) and Chartered Secretary (UK), and holds a Graduateship in Marketing (Ireland).

Mr. Parkson Cheong

(Group Chief Risk Officer)

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

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

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

Dr. Soliman AbdelMeguid

(General Counsel-Head of Legal Affairs Group)

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

Upon his graduation, he started his career by joining the Egyptian judiciary system and by teaching at the university. He has extensive work experience of over 34 years in legal affairs at Kuwaiti banks.

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

Dr. Elias Bikhazi

(Group Chief Economist)

Dr. Elias Bikhazi joined NBK in 2008 and has been the Group Chief Economist since early 2013. He is Deputy General Manager and heads the bank's Economic Research Department. He is also a member of various Committees.

Prior to his current position, Dr. Bikhazi was the Head of Economic Research at NBK. He has extensive experience in economic analysis and financial markets, including over 20 years of experience covering US markets.

Dr. Bikhazi holds a Bachelor of Arts degree in Economics from the American University of Beirut, and a Master of Arts and a Philosophy Doctorate, both in Economics from the University of Southern California, USA.

Mr. Pradeep Handa

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

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

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

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

Mr. Mustafa El-Gendi

(General Manager - Domestic Corporate Banking Group)

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

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

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

Mr. Malek Khalife

(General Manager - Private Banking Group)

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

Mr. Khalife's last tenure prior to his current position was as Director of Private Banking Representative Office at an American bank in Lebanon. He has extensive experience of over 31 years in Private Banking and Financial Markets in the Middle East and the Gulf Area.

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

Mr. Dimitrios Kokosioulis

(General Manager - IT & Operations Group)

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

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

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

Mr. Carl Ainger

(Group Chief Internal Auditor)

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

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

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

Mr. Emad Al-Ablani

(General Manager - Human Resources)

Mr. Emad Ahmad Al Ablani joined NBK March in 2003 and has been recently appointed as the Group General Manager, 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, Recruitment & HR Operations – Assistant General Manager in NBK. He has extensive experience in Human Resources, spanning over 23 years.

Mr. Al Ablani holds an (EMBA) Executive Master degree in Business Administration, from the American University of Beirut (AUB) Lebanon and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

Mr. Sulaiman Barrak Al-Marzouq

General Manager-Group Treasury

Mr. Sulaiman Al-Marzouq joined NBK Treasury Group in 2002 where he held several positions. He then moved to the Central Bank of Kuwait where he headed The Department of Foreign Operations during the years 2012 to 2015 before moving back to NBK as The General Manager of Group Treasury.

Mr. Al-Marzouq has an extensive experience in investment and wealth management in addition to his experience in treasury and banking operations. Furthermore Mr. Al-Marzouq was a board member in several banks and companies in Kuwait.

Mr. Al-Marzouq holds a bachelor degree in Economics from Portland State University, USA.

Management Discussions and Analysis

Overall Bank Strategy

NBK's vision is to be "The Trusted Bank of Choice, Building on Our Core Values, People and Expertise." In line with this vision, on the domestic front, NBK continued to defend its leading position in the local market leveraging its solid financial standing, its unrivaled franchise and the profound understanding of its customer needs. In retail banking, we have launched a number of pioneering products and services reinvigorating our brand as the innovative bank of Kuwait. In wholesale banking, we remained at the forefront of supporting the nation's development plan.

Since turning Boubyan into a fully consolidated subsidiary of NBK Group in 2012, the Bank has made substantial progress in establishing a stronger presence in Kuwait's growing Islamic banking segment, and diversifying its income stream, product offering and client base. NBK is committed to support Boubyan Bank to further strengthen its market position in the domestic market and explore international expansion opportunities in Islamic Finance.

On the regional front, we continue to focus on integrating and consolidating our international operations to harness their values. We are organizing periodic forums to bring together corporate bankers from across our network to jointly explore cross-sell opportunities. We are revisiting our retail proposition across our international locations to diversify our income streams. In Egypt, a transformation program is well underway to build a larger and stable franchise with multiple sources of funding and income streams.

Financial and Performance Indicators

The Group reported net profit of KD282.2m for the year ended 31st December 2015, compared to KD261.8m for the previous year, a 7.8% year-on-year increase. NBK Group's pre-provision operating profits increased by 10.8%, from KD446.0 million to KD494.1 million. The growth was primarily driven by higher net interest income, higher fee income and higher FX income. Investment income included a first quarter KD27.9 million pre-tax gains booked in respect of the Group's exit from its investment in International Bank of Qatar (IBQ) in 2014. Impairment charges amounted to KD164.4 million in the year, as compared to KD146.7 million in 2014. Net loans, advances and Islamic financing to customers (net loans) grew by 13.8% in 2015, to KD13.6 billion. Customer deposits grew by 7.1% during the same period, to KD12.1 billion. Total assets grew by 8.3%, to KD23.6 billion.

Margins contracted slightly during the year as a result of several factors including the impact of the family support fund, higher liquidity levels across the Group, and competitive pricing pressures. Accordingly, the Group's net interest margin tightened from 2.45% in 2014, to 2.42% in 2015.

Net operating income grew by 10.2% during the year, whilst total costs grew by 9.1% in the same period. The cost to income ratio for the Group was 32.2% in 2015, compared to 32.5% in 2014.

The contribution from the Group's overseas operations continued to demonstrate the ongoing benefits of its well managed earnings diversification strategy, contributing 27% to Group earnings. Similarly, NBK Group continued to benefit from diversification into Islamic Banking, as NBK continued to see very positive momentum at Boubyan Bank, delivering 24.8% year-on-year increase in net profits, to reach KD35.2 million in 2015.

Key asset quality indicators remained extremely strong, with NPL's/Gross loans at 1.34%, and coverage reaching 322%.

Total shareholders' equity increased to KD2,607 million, from KD2,512 million in December 2014. The Group strengthened its equity base during the year by issuing perpetual Tier 1 capital securities in the amount of USD $700 million, and subordinated Tier 2 bonds in the amount of KD125 million. Capital adequacy ratio reached 16.8% at year-end 2015, comfortably above the regulatory requirements.

Return on average assets during the year was 1.22%, and return on average equity was 10.5%.

CONSUMER BANKING GROUP

Consumer Banking Group (CBG) at NBK provides its services to a diverse client base through a network of local branches. The Consumer Banking Group offers a range of simple and flexible banking solutions and innovative products that ensure a positive customer experience in terms of ease, safety and simplicity.

Consumer Banking continued in 2015 to focus on enhancing customer experience by building on the relationship with customers and supporting distribution channels. The results were evident in the high levels of customer satisfaction as reflected in collected data. CBG also leveraged the "I Am NBK program" that was launched across the Bank to strengthen customer relations and improve customer experience.

Also in 2015, the Consumer Banking Group launched several innovative products and services including instant debit card issuance at all NBK branches. This service is also available 24 hours, seven days a week at the Kuwait International Airport branch.

Consumer Banking continued offering the most flexible and innovative services while maintaining high standards of quality and efficiency. Customer satisfaction reached its highest level compared to previous years among all major channels of NBK.

At the technological level, Consumer Banking continues to improve its electronic services achieving a leading footprint in the technological banking industry. A great demonstration was the achieved 20% increase in users of Watani Mobile service compared to 2014.

In this context, Consumer Banking added value with several smart technology products that increased efficiency, speed and ease of experience. The Bank also supported existing electronic services by adding new features such as updating Watani mobile services for IOS 9 and Android along with a successful release of the same service for smart watches (both in IOS and Android).

Consumer Banking operates 68 branches across Kuwait and in 2015 implemented efforts to enhance and upgrade ATMs across all branches and locations with increased functionality and easier access. CBG also provided multi-currency ATMs at Kuwait International Airport and Saad Al-Abdullah Airport in an initiative to support the Bank's strategy of streamlining and integrating infrastructure in support of the Bank's growth targets.

In terms of credit cards, Consumer Banking Group launched the Miles credit card in association with MasterCard which surpassed rates of usage and demand far exceeded initial expectations.

In support of the growing small business segment which is currently experiencing an unprecedented boom in Kuwait, Consumer Banking worked tirelessly to provide entrepreneurs with platforms to service all their business needs. Consumer Banking launched the unique value proposition, MyStore2Go.com for Business Banking. The offering delivers a tailored website with simple drop/drag solutions to allow clients to customize their commercial website to market and sell their products/services with ease and flexibility.

Instant POS redemption for NBK credit cards resulted in record-breaking redemptions. The updated redemption service allows NBK customers to benefit from their NBK Rewards points electronically by the POS machine at more than 640 participating outlets.

Consumer Banking has made significant progress during the year. CBG continues to focus on customer service by offering products and services that are characterized by ease of use, convenience, added value and innovation.

In response to a Central Bank of Kuwait initiative to increase awareness campaigns to protect banking clients, NBK efforts included the following:

- Developing banking products and services in addition to distribution channels to fit with customers' needs and expectations.
- Surveying customers regarding their satisfaction/opinion about products/services, distribution channels and the service that NBK offers.
- Enhancing customer awareness and ensuring knowledge of products and services that NBK provides.


الوطني
NBK

PRIVATE BANKING GROUP

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

Private Banking has strengthened its leading position in this market segment through a wide portfolio of innovative private banking products and services tailored for its client base. Through teamwork, commitment to service and an ability to identify opportunities for clients, Private Banking saw a steady increase in its Assets Under Management (AUMs) and High Net Worth Individuals (HNWI) and families being served. Adhering to the Bank's conservative strategy, Private Banking continued to advise clients to maintain safe and secure investments and built on these strong and trusted relationships.

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

In 2015, Private Banking achieved several important successes. It successfully issued new Islamic Equipment Leasing Funds and availed to clients NBK Bond Tier 1 and Tier 2. In addition, it assisted clients in locating and investing in prime properties in the United Kingdom and the United States, and actively promoted Trust and other offshore services.

CORPORATE BANKING GROUP

Kuwait's business environment recorded its best ever year in 2015 for the award of several government mega infrastructure projects which reached USD $32 billion. The biggest award this year was the Kuwait National Petroleum Company's (KNPC) 615,000 barrels per day Azzour Refinery Project worth USD $13.2 billion. Other large awards included Kuwait Oil Company's (KOC) Lower Fars Heavy Oil Handling Facilities Phase 1 worth USD $4 billion. This development triggered a boost in private business sector sentiment and confidence and the overall operating environment in Kuwait.

Corporate Banking Group dominated 2015 as the bank of choice for leading corporates in Kuwait. NBK's Corporate Banking Group, with its prominent market position and unique experience in structuring and underwriting large capital market deals, was very well positioned to capture any attractive business opportunities the market presented. Corporate Banking proved again successful in meeting corporate customers' needs, both domestic and foreign, and in supporting the private sector's expansionary goals and the country's longer-term development ambitions.

Domestic Corporate Banking

NBK participated in the syndicated financing facility for OSN, the region's leading Pay-TV network. The successful closing of this syndicate facility of 11 international and regional banks from the Gulf region, Europe and North America was nearly two times oversubscribed, with NBK being the only Kuwaiti bank participating. This is a testament to NBK's international reach and capabilities in handling sophisticated deals and building relationships with other international lenders.

NBK also participated in an award-winning syndicated facility for global logistics provider, Kuwait-based Agility. The syndicated facility won the "Corporate Finance Award" in the 2015 ACT Middle East Deals of the Year Awards for the impressive structure of the deal. NBK was among five banks that participated in financing the purchase of six fuel efficient tankers for Dubai-based Tristar Transport Group, a logistics provider in oil, gas and chemicals owned by Agility.

NBK Corporate Banking also concluded several other major domestic financial deals on a bilateral basis for landmark private projects in Kuwait. NBK signed a KD 150 million financing agreement with Mabanee, which owns and operates the landmark Avenues Mall development, for the expansion of The Avenues Mall, Phase 4.

Foreign Corporate Banking and Oil & Gas

Corporate Banking Group successfully closed several major deals. Among the most prominent, NBK provided support for all of the EPC contractors for their banking requirements for the KNPC Azzour Refinery Project worth USD $13.2 billion, Kuwait's largest development project ever.

In the Oil & Gas sector, NBK was chosen as the initial Underwriter and Mandated Lead Arranger in the USD $6 billion Equate syndication deal.

NBK's role as market leader

NBK Corporate Banking Group has been very active and supportive to other clients in all size segments. Corporate Banking Group approved substantial amounts of loans for existing customers and captured new clients at a solid hit rate. Some of these loans are to be drawn in Kuwait, while others were arranged for multinational clients through NBK subsidiaries in their respective markets of operation.

Corporate Banking Group continues to dominate market share in most business lines, the outcome of a sophisticated service quality and advanced product offerings. On the Domestic Corporate side, the Bank maintains the highest market share over 25%. On the Foreign Corporate side, NBK's market share is estimated at more than 75%.

Corporate Banking Group also upheld NBK's position as the "Best Trade Finance Provider in Kuwait", as determined by international financial publication, Global Finance. In fact, NBK is a leading provider of International Trade Finance solutions, offering fast and superior quality services and controlling the Trade Finance business in the market through a share of export L/C business of around 80%; issuance of almost 100% of the guarantees for major projects in the country and the rest of the trade finance products commanding a share of around 30%. At the same time, NBK enjoys supremacy as the bank of choice in Kuwait's Oil & Gas industry by being the banker to 100% of KPC group companies.

TREASURY GROUP

Liquidity management remains a top priority for Treasury Group especially with the developments in global financial markets, the crisis in emerging markets, the recent and planned GCC sovereign debt issuances and the uncertainty of the interest rates outlook in the United States. Treasury Group has been actively working on improving the Bank's funding profile through expanding and diversifying its funding sources across all geographic locations and lengthening the duration of the Bank's liabilities.

The management of interest rate risk for local and foreign currencies remains an important concern for Treasury, especially given the imminent monetary policy tightening in the United States. Extending the duration of the Bank's liabilities to enhance the liquidity profile also provides hedging benefits in the rising interest rates environment.

NBK maintained its cost of funding advantage over local and regional peers, supported by the Bank's high credit worthiness. However, the tightening of liquidity conditions and the growth in asset-funding requirements are expected to exert upward pressure on funding costs in the near future.

Treasury continued to utilize the Central Bank's instruments to deploy excess local currency liquidity and to benefit from any opportunity to lend in the inter-bank market. The FX market witnessed elevated levels of volatility this year on the back of the divergence in monetary policies between the US and the rest of the world and the capital outflow from emerging markets. That being said, clients' FX activity continued to increase in 2015 helped by the government's development plan and its related projects. NBK retained its position as the bank of choice for mega foreign exchange deals, and was named the "Best Foreign Exchange Provider in Kuwait and the Middle East" by Global Finance for the fourth consecutive year.

Treasury Group continued to work on upgrading its IT systems and infrastructure in order to better serve clients and grow customer satisfaction.

INTERNATIONAL BANKING GROUP

International Banking Group (IBG) achieved record performance in 2015. This performance is attributed to a high rate of successful execution of a range of new initiatives and programs. IBG has seen a significant asset push throughout the year, in addition to productivity gains and stable asset quality. NBK's asset push was focused on profitable and stable markets, especially high growth markets in the affluent GCC which benefitted from high oil prices and high government spending. The IBG results were also supported by recovery in Egypt, the second largest market for NBK after Kuwait.

NBK launched its strategic regional expansion in the 1980s, opening full service branches in regional hubs Bahrain and Lebanon. It also chose key international destinations – Geneva, London, New York, Paris and Singapore to add to its international presence. In 2004, NBK took the strategic decision to expand its presence in the Middle East and North Africa (MENA) region. The Bank quickly established branches in Jordan, Saudi Arabia (Jeddah) and the UAE (Dubai and Abu Dhabi) and through acquisition entered simultaneously Egypt, Iraq, Qatar and Turkey.

Today, NBK has an international network of subsidiaries and associates with close to 94 branches outside Kuwait. This network is complemented by a mix of alternative and remote distribution channels to better serve NBK's customers. All of the Bank's businesses outside Kuwait are successfully integrated. Most of these branches operate under the same brand and use the same IT systems.

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

GCC

In the affluent GCC, NBK is well positioned to leverage its presence for future growth. NBK currently operates in Abu Dhabi, Bahrain, Dubai and Jeddah, where it offers corporate clients and high net worth individuals (HNWIs) a range of treasury and wholesale banking credit solutions, both conventional and Sharia-compliant, in addition to trade finance services and basic retail services including personal loans and NBK's Premier Thahabi Account. The Bank is growing its presence in GCC member states by extending online banking services in Bahrain and Dubai (UAE).

In Qatar, NBK exited its minority stake investment in International Bank of Qatar (IBQ) when the opportunity to increase the stake beyond the 30% level diminished. NBK continues to cover this very attractive market by working closely with IBQ and other domestic banks.

Other MENA

Outside the GCC, NBK's customer base continued to grow in 2015 despite the challenging geopolitical environment, with customers drawn by the Bank's strong brand and leading reputation for quality achievement, growth, confidence, stability and security.

In Egypt, NBK is present through NBK-Egypt (NBKE) upon rebranding from Al Watany Bank of Egypt which NBK acquired in 2007. With NBK's management, NBKE has experienced a complete transformation and became one of the prominent foreign-owned banks in Egypt. NBKE has now fully migrated to a new core banking system. NBKE successfully expanded and upgraded its physical network, including doubling the number of ATMs (114) and the number of branches (40, including two that are fully Sharia-compliant). NBKE delivered superior customer service and accessibility by establishing a call center and online banking services. Incoming calls and emails are now answered around the clock. NBK's emphasis in 2015 focused on positioning itself for growth as Egypt started to emerge from unrest and enter a period of growth.

In Iraq, Jordan and Lebanon, NBK has successfully implemented branch-wide enhancements of the IT and network infrastructure to continue to provide customers data protection and a reliable and secure platform for client accounts and transactions. There was continued emphasis as well during the year on staff security, especially in Iraq where there were spikes of violence and unrest. NBK operates in Iraq through its subsidiary Credit Bank of Iraq (CBI), in which the Bank owns a controlling 84% stake. CBI offers transfers and trade finance to Kuwaiti corporate clients and foreign contractors as well as basic retail products for Iraqi customers. It operates 10 branches throughout the country and is among the largest private banks in Iraq.

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

International markets

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

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

NBK CAPITAL

This year, NBK Capital celebrated 10 years of proven industry leadership in investment services through its four main sectors that includes Asset Management, Alternative Investments, Brokerage and Research and Investment Banking services.

Operating in four countries, NBK Capital continues to leverage and pursue a strategy of growth and innovation, pioneering financial solutions across all business sectors. Over the years, NBK Capital has won more than 20 industry awards.

Asset Management

NBK Capital's Asset Management team offers investors a suite of global investment products and expertise across various sectors in the MENA region.

Investment Products

NBK Capital Investment Products provides investment products and services to its High Net Worth and institutional clients through its multi-talented team across all sectors. The professionals at Investment Products identify and select the best-in-class investment managers across all asset classes with actual monitoring and periodic evaluation of investments with the highest global investment standards.

MENA Equities

The MENA Equities team increased its assets under management by more than 20% in 2015 through attracting new individual and institutional clients and restructuring several portfolios containing listed companies into regional discretionary portfolios.

This year NBK Capital received the highly acclaimed "Kuwait's Asset Manager of the Year" award from Global Investor ISF Mena Awards. Although market conditions posed a variety of challenges in 2015, NBK Capital products performed above peers and compared to their respective benchmarks.

Investment Advisory

Investment Advisory is an exclusive part of NBK Capital that offers sophisticated investment recommendations reflecting the client's risk and return objectives. A team of professional financial advisors meet regularly with clients and investors and work through a streamlined process for customizing allocations for their portfolios to achieve optimal results.

Alternative Investments

In 2015, the Alternative Investment team continued to focus on middle market private equity and mezzanine investments across the MENA region and Turkey through its four active funds and nearly USD $1 billion under management. Alternative investments burnished its superior investment track record in the region in 2015 through a series of achievements:

Exiting two investments successfully during the year including a prominent pharma provider and a leading aquaculture player, both based in Turkey.

Investing in financing mezzanine including a growing fast casual seafood chain in KSA as well as a long-standing education asset in Egypt.

Preparing the marketing of a fifth alternative investment fund, the Mezzanine II product targeted for first close 2016.

Improvement of corporate infrastructure specifically in financial reporting and governance while building human capital with strategic additions to the investment team.

Brokerage & Research

In 2015, Watani Brokerage, upgraded its Order Management System (OMS) and Trading Platform to a new generation and integrated infrastructure. The new infrastructure brought in an advanced user-friendly trading platform to enhance the trading experience of clients. In addition, Watani Brokerage clients are able to trade through their mobile devices using our trading applications on both the iPhone and Android systems.

Watani Online Brokerage offers investors an unparalleled trading experience by providing direct online access to seven capital markets in Kuwait, Egypt, the GCC states and the United States.

NBK Capital MENA Equity Research team increased coverage in existing sectors on the domestic and regional level. The firm's research is robust covering around 50% of the total market capitalization of the GCC and Egypt. The coverage now spans more than 90 companies across the following sectors: banking, building materials, consumer goods and retail, logistics, petrochemicals and oil, real estate, telecommunications and transportation.

Investment Banking Services

NBK Capital's Investment Banking Division had a very successful year and was awarded the "Best Investment Bank in Kuwait" award by Euromoney, further strengthening its track record as advisor of choice on financing transactions, mergers and acquisitions, IPOs, capital raising and restructuring advisory services.

Investment Banking achieved several key transactions in 2015 including:

- Continuing to advise Kuwait National Petroleum Company, a subsidiary of Kuwait Petroleum Corporation, on its borrowing requirements for the clean fuel project. The largest financing in the history of Kuwait to date.
- Completed the IPO of Mezzan Holding Company on the Kuwait Stock Exchange. Oversubscribed twice and stock surged on listing 30+% from subscription price.
- A USD $700 million AT1 perpetual Capital Securities issuance for National Bank of Kuwait. The first and highest rated AT1 issuance in the GCC region.
- Completed the KD 125 million Tier 2 capital bonds for National Bank of Kuwait, the largest private sector bond offering in Kuwait and the first and highest rated Tier 2 bonds in the GCC region.
- Advised the sale of a large fashion retailer.

OPERATIONS & INFORMATION TECHNOLOGY

Operations

In 2015, Group Operations and IT successfully delivered several optimization initiatives aimed at positioning the Group at a higher level of professionalism, efficiency and service quality. The key achievements include: Global centralization of the Bank's Operational & IT activities, the delivery of multiple strategic projects, restructuring, optimization and synergies initiatives, customer service improvements and cost containment activities, all while maintaining a focus on staff development and motivation.

To facilitate banking transactions for NBK customers who benefit from KCB services, NBK signed a protocol agreement for electronic payments with Kuwait Credit Bank (KCB).

June 2015 saw the implementation of Kuwait Electronic Check Clearing System (KECCS). NBK was the first bank in Kuwait to process a cheque through KECCS, and is today meeting all CBK requirements. The process is running smoothly and the project is in the course of being closed. Additionally, On the Salary Portal front, the main focus was on boosting customer migration to the salary portal to realize optimal benefit from the system and improve customer experience.

NBK achieved 98% ATM uptime during several weeks in the second quarter. This is a considerable achievement, placing NBK as the highest in the region considering the next best-in-class in the region is only 97.5% ATM uptime. NBK also achieved 100% cash availability during the peak salary period. This is a first time achievement and has taken its ATM services to the next level

The Group coordinated with Domestic Branches Division (DBD) management and facilitated the smooth rollout of Instant Card Issuance facility at all branches, shortening the process time for issuing a credit card from two to three days to instant issuance, while the customer is at the branch.

The Payments Engine Phase 1, which processes corporate payment requests, has been successfully delivered. The project plan for Phase 2, which delivers all customers' incoming and outgoing payments requests, has been defined.

Efficiency studies have been and are still taking place at Operations and IT to assess process performance including the identification of potential reduction in cycle time while maintaining/improving the output quality. Operation and IT also conducted capacity calculations ensuring proper balance between expenses and quality output while adhering to regulatory requirements, and identifying potential improvements and savings.

On the people front, Operations and IT Group embarked on several initiatives that target staff development, empowerment, motivation, service and teamwork remained one of the most important pillars at Group Operations and IT. These initiatives included; the "Adopt A Future Leader (AFL)" program, that aims to develop the group's high potential staff, retain them and benefit from their insight on the Group's different functions, was a success. Also, several town hall meetings took and are still taking place, opening the door for all staff to discuss different topics related to the Group.

Other people initiatives included: The Most Valuable Player, which encourages teamwork, Staff Suggestions, Operations & IT Site, I Am NBK and the OASIS Annual Awards Ceremony.

Information Technology

The IT strategy and roadmap was defined and formalized, which focuses on system efficiencies, governance, solid infrastructure and consolidation where applicable. Enterprise releases continued to be delivered successfully leading to an overall improvement in work efficiencies.

Assessments and efficiency

As part of IT Governance Model (COBIT), assessments have been and are still being carried out and discussed with the relevant departments.

Efficiency studies have been carried out as well at IT to assess process performance, conduct capacity calculations and identify potential improvements and savings.

Successful implementation

In order to increase the resilience and improve the business continuity of NBK Call Center and NBK Internet Services, multiple ISPs for ISDN services and Internet services were successfully implemented.

The Storage Upgrade Project - Phase 1 has been successfully completed. The project encompasses migrating storage to the latest supported storage system with enhanced performance and meeting the Payment Card Industry (PCI) compliance requirements.

As part of the Workforce Management Upgrade Project, the Teleopti system which enhances the resource planning management for business lines and makes it easier and faster on the business to allocate resources as per daily needs, was completed successfully.

The ATMs operating systems upgrade to the latest technology stack, ultimately enhancing security has been completed.

Phase one of HRMS, which automates manual HR-related processes and provides self-service to employees successfully went to production, as well as AS400 upgrade which is about migrating to new technology and supporting IBG business requirements.

3D Secure project went to production ensuring that NBK debit and credit cards will have a 3D secure authentication capability. The project enhances the processing of all internet transactions from a security perspective, minimizing fraud incidents.

Incremental rollouts of the following projects continue: The Qmatic rollout to branches, which is about upgrading the current queuing system to manage traffic at the branch, enhancing customer experience, and NBK Local Branch Network which aims at improving branch performance and business continuity. More than 31 other IT projects are underway.

A 32% decrease in IT-related customer complaints has been reported YTD September 2015 compared to the same period last year.

User Access reviews on multiple systems took place encompassing: payment functionality, teller functionality, cheque processing, fund valuation, loans workflow, amongst other functionalities, increasing security and controls.

On the people side, all the People Initiatives in Operations have been rolled out to IT. Continuous reviews, enhancements and updates are being done on IT staff job descriptions, job titles, organization structures and manpower planning.

HUMAN RESOURCES

Human Resources achieved several key successes in 2015. To highlight just a few, HR implemented a group-wide compensation benchmark study, launched a new High Fliers talent development program aimed at middle management and implemented a new Oracle system across Human Resources. These projects, along with various other initiatives, served to further create a seamless and integrated system for recruiting, developing and retaining human talent at NBK.

Human Resources Group also successfully carried out various activities to support NBK in achieving its strategic goals. Indeed, NBK hit an all-time high with its Kuwaitization rate, successfully achieving a target of 66% national staff compared to 64% in 2014. Furthermore, HR introduced further enhancements to NBK's employee proposition with the introduction of a new insurance company, Boubyan Takaful. This partnership offers all NBK employees and their families access to a much larger network of direct billing hospitals and clinics across Kuwait.

HR Center of Excellence

Training and Development

During 2015, Human Resources provided training to 1,300 employees, 81% of whom were junior staff. Throughout the year, the bulk of training was delivered through NBK in-house workshops; at 41% of courses delivered. Soft skills courses represent 9%, specialized / technical skills 41% and Institute of Banking Studies (IBS) courses 32%. Additionally, the second quarter saw an increase in the number of training sessions delivered compared to the same period last year due to the strategic change of the new Oracle solution system whereby more than 1,260 junior and senior staff were trained on its usage. A critical 'Protect NBK' anti-money laundering program was also delivered to more than 1,100 staff.

Recruitment

In 2015, NBK hired 300 new employees into the organization. Of these, 279 were Kuwaitis. Our YTD Kuwaitization rate has now reached 66% compared to 64% last year for the same period. Overall, 67 In-House Engagements (Internal Recruitment) announcements were carried out in 2015.

The team launched three Shabab programs with a total of 53 participants and conducted three NBK academies with 54 total participants. There are two more batches to be enrolled in DBD and Call Center with target participation of 35 candidates.

Talent Management

In 2015, a new High Fliers program was launched which aims to develop the potential and leadership skills of NBK's young future leaders. The program commenced in October in collaboration with the American University of Beirut. The program will be conducted in two groups, Cohort IV and Cohort V with a total of 52 participants.

Another strategic Talent focus for 2015 aimed to ensure that robust succession plans are in place across the organization with special attention to identify Level 1, 2 and 3 critical positions and successor pipelines. The team offered help and guidance in accessing attrition risk; key successor strength and development needs as well as ensuring comprehensive development plans and career conversations are being implemented to all High Potential employees. Furthermore, 20 of our High Potential staff have been engaged in several executive programs including partnerships with Harvard Business School, Chicago Booth and Kuwait Foundation for the Advancement of Science (KFAS).

A retention strategy was devised targeting the Bank's top talent and focusing on developmental-based retention strategies linked to succession planning as well as compensation-based strategies. Various ad hoc projects related to policy amendments and employee benefits were conducted as well.

Engagement and Employee Relations

This year, Employee Relations continued reaching out to staff across the bank by visiting departments and branches, giving employees an opportunity to voice their concerns and finding ways to develop their skills for their career. A new feature was enhanced for the exit interview process by adding an online survey as part of the interview process, giving us additional insight into reasons why staff leave to compare it to a global benchmark in this context. As part of our strategic initiatives, the Bank conducted a customer measurement tool by the end of 2015 to assess the alignment of HR functions to the business requirements.

Compensation

The team implemented compensation benchmark recommendations across the NBK Group based on the analysis and recommendations from the benchmark study. Based on this study, Compensation also has proposed unifying and updating the salary scale for NBK. Various ad hoc projects relating to review of job descriptions and job titles, organization structures, job grading approach and employee benefits were conducted. Compensation conducted an annual review analysis of promotions, breaking down relation of the promotions to talent grid scores and performance ranking for the NBK Group.

Strategic HR Business Partners

The Business Partner team continued its focus to support business in terms of its HR requirements. The Business Partner team's involvement in the compensation benchmarking exercise was critical to its implementation. Moreover, the HRBP team attended various Town Hall events with business, enabling it to identify key aspects that are needed to support business. The team is currently developing a comprehensive Learning Curriculum for all relationship management roles in Corporate Banking. The curriculum will provide all employees in such roles a view of the development requirements to become effective in their role. Business Partners aims to roll this process out to the rest of the NBK Group during 2016 and 2017.

Quality Assurance

Quality Assurance successfully delivered in 2015 new governance and processes pertaining to organization structures maintenance and updates.

Oracle Implementation System

In terms of the implementation of the Oracle R12 system, the Self Service module was successfully implemented in July. NBK employees are now able to request leaves, update employee information and request certifications through the system, reducing paperwork and manual work processes significantly. The second phase of implementation was scheduled for November and includes more systems that relate to recruitment, learning management, succession planning and performance management.


81%

Overview

A soft global growth outlook and an oversupply of oil have kept oil prices down over the last year. Average oil prices in 2015 were around 48% lower than the previous year. Despite the decline in revenues, regional oil exporters continued to support domestic economic growth and government spending by running deficits. Stock markets, which had declined due to the lower price of oil, were hurt again when international markets lost ground on disappointing news from China, especially in the third quarter. Political tensions and instability remained a key concern for the Middle East North Africa (MENA) region, with conditions appearing to deteriorate on the whole, especially in Iraq and Syria. Still the Gulf Cooperation Council (GCC) region has largely managed to remain isolated from the surrounding insecurity.

Oil supply glut continued to weigh on oil markets in 2015

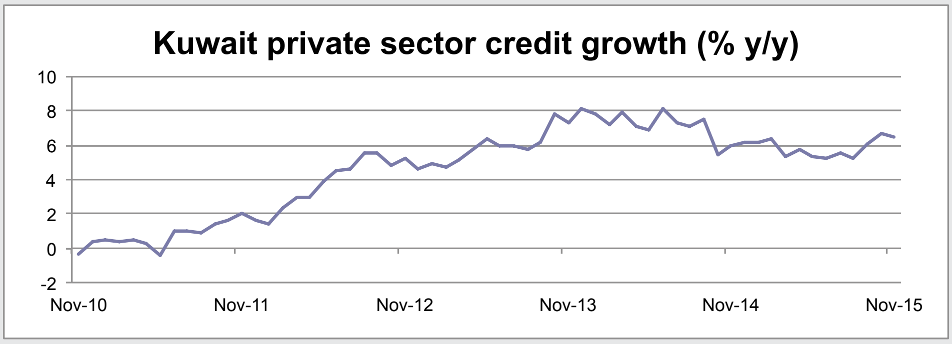
2015 has seen oil prices continue to be pressured by an excess of supply over demand. The international benchmark Brent crude has averaged $52 dollars per barrel ($/bbl) in 2015 and ended the year with a price of $36 per barrel ($/bbl), down around 68% from the peak of $115/bbl in mid-June 2014. Again, depressed prices were largely a reflection of resilient non-OPEC supply, particularly from US shale plays, and elevated production from the Organization of Petroleum Exporting Countries (OPEC) in the context of still weak global oil demand. Moreover, supply outages resulting from geopolitical events in conflict zones across the Middle East and Africa were markedly absent. By mid-year, signs emerged that OPEC's Saudi-led strategy of maintaining elevated production (and thus low prices) in order to render high oil cost producers (US, Canada) uneconomical, was bearing fruit: US crude output had begun to decline amid falling numbers of drilling rigs and cutbacks in capital expenditures by major oil companies. At the start of the fourth quarter of the year, however, the International Energy Agency (EIA) revised down its estimate of oil demand growth in response to weaker global economic data, especially from emerging markets.

GCC

While lower oil prices have pushed all GCC budgets into deficit, most governments have maintained a relatively supportive fiscal stance. With most countries having ample reserves to pull through a period of lower oil prices, the region has not seen any drastic cuts in government spending. Capital spending in particular has continued to expand, in line with ambitious plans across the GCC. Still, some GCC economies have seen some slowdown in their non-oil economies during 2015 as governments were forced to reduce or delay some outlays. The exceptions were Kuwait, Qatar and the UAE, where growth is seen either improving slightly or coming off high levels.

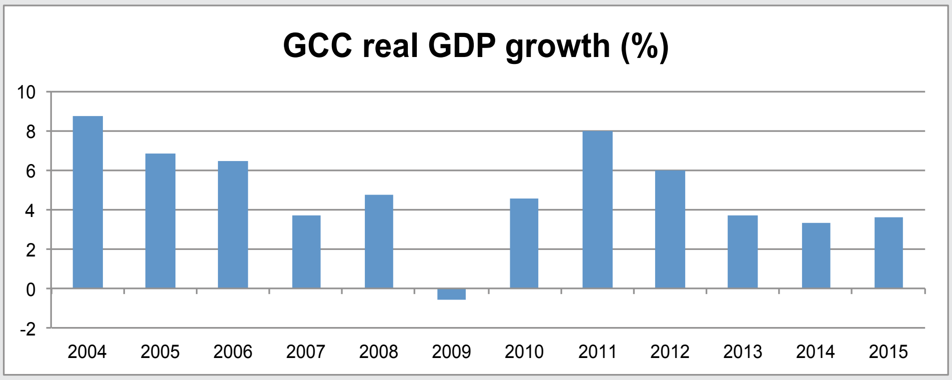
The GCC continued to outperform the broader MENA region, bolstered by more robust fundamentals and relative political stability. Banks remained well-capitalized and liquid, though liquidity has tightened somewhat in 2015. Substantial fiscal and external buffers have also shielded the region from the volatility in oil prices. However, the lower oil prices have refocused attention on some of the long-term challenges the region faces, including fiscal sustainability and employment. Governments across the GCC are looking at the reforms required to address these challenges.

Regional equity markets ended 2015 with losses. These losses were recorded as fears were stoked by an expected slowdown in China and potential higher interest rates from the US Federal Reserve. A rate hike by the Us Federal Reserve actually took place in December 2015, and affected markets worldwide. The S&P Pan Arab Composite retreated 14% by year end, underperforming most developed markets but outperforming some emerging markets. In the GCC, all markets registered losses in 2015 with the S&P GCC Index down by 15% by yearend. Kuwait underperformed while Qatari and UAE equities fared better. Meanwhile, markets in Egypt and Iraq were hurt by escalating political instability and security threats.

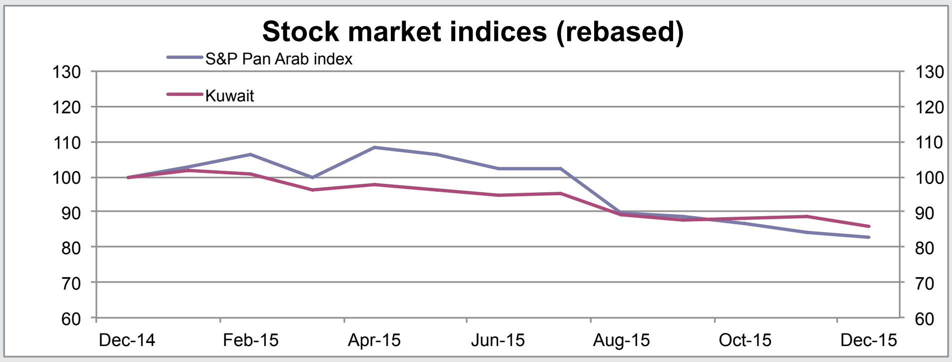


Kuwait

Kuwait's economic growth is expected to have maintained an accelerated pace despite more than a year of lower oil prices. Growth is being supported by the accelerated implementation of the government's development plan and a robust consumer sector. Ambitious capital spending targets have already boosted aggregate investment and should continue to do so in the period ahead. The approval of the five-year development plan for 2015-2020 and the FY15/16 capital spending budget early in 2015, reaffirmed the government's commitment to its ambitious investment targets, despite the lower oil price environment.



The drop in oil prices had a significant impact on Kuwait's fiscal and external positions, reducing the current account surplus and turning a fiscal surplus into a deficit. Nonetheless, the country enjoys substantial buffers that allow it to stay the course in the medium term. Kuwait is expected to register a deficit of around 13% of GDP in FY15/16, well below some of its GCC peers. Meanwhile, a sovereign wealth fund – estimated at over 400% of GDP (over $550 billion) – should allow the country to comfortably finance deficits without having to make deep cuts in spending for quite some time.



With oil prices remaining low and Kuwait expected to see its first fiscal deficit in 16 years in FY15/16, the government approved an 18% decrease in government spending earlier in 2015. Most of the cuts are in items that would leave the outlook for the domestic economy unchanged. In particular, investment spending plans will be largely unchanged. In fact, around half of the reduction is in the estimated cost of energy subsidies and unnecessary government expenditure, with no impact on actual government outlays.

In contrast to most of the rest of the GCC, Kuwait's nonoil activity is expected to have accelerated in 2015. In 2014, growth had yet to benefit from the improvement in project implementation; preliminary figures show a slight slowdown to 2.1% in real terms, though this is likely to be revised upwards to show steady growth of around 3%. In 2015, non-oil GDP is estimated to have risen by 4%; boosted by infrastructure spending.

Despite a positive growth outlook, lower oil prices have highlighted the longer term sustainability challenges facing Kuwait. As such, the government has rekindled efforts to introduce vital fiscal reform. Current proposals include a broader corporate income tax, a value added tax (VAT), and a subsidy reform initiative. Tax reform is not likely to take effect before 2019. Subsidy reform, which could include a cash transfer to lower income households, could take off sooner but will most certainly be phased in over at least three to five years. An ambitious wage bill reform initiative is also being studied by legislators; it aims to standardize pay across the public sector and to increase central control over the government's wage bill. The authorities appear to be serious about addressing the long term fiscal challenges facing the country and doing so in a gradual manner that does not derail the pace of growth.

Capital spending has been a key driver of the improving pace of growth. This is largely thanks to a more rapid implementation of the government's Five-Year Development Plan. The plan calls for both government and private investment in a host of large infrastructure projects. Following some delay in prior years, 2014 and 2015 have seen a pickup in the pace of implementation, with project awards rising notably. Around $26 billion in projects were awarded in 2014 and another $31 billion in 2015 (over KD 9 billion). This compares to an average of around $10 billion per annum in the last three years.

The 2015-2020 Development Plan projects around KD 34 billion in new project spending in various sectors including oil, power generation, transportation and housing. Most of the projects in the plan have already been approved individually and have been on the government's drawing board for several years. The plan is expected to boost nominal growth in aggregate investment to 12% in the coming three years.

The government has also sought to improve the business environment and boost private sector participation in the economy. It is doing this through the Public Private Partnership (PPP) investment model. Legislation passed in 2014 should lead to better regulation of the PPP initiatives. The new law replaced the Partnership Technical Bureau (PTB) with the Kuwait Authority for Partnership Projects (KAPP). The new body has greater independence and executive powers and should manage PPP initiatives more effectively.

Growth in the consumer sector has also remained quite resilient, though there are signs that growth will continue to moderate. The sector remains a key driver of the non-oil economy. Growth in household income, borrowing and spending has remained robust, reflecting healthy levels of activity in the sector. Hiring among Kuwaitis has also remained healthy, with job entrants able to obtain employment without too much of a waiting period. However, there have also been some signs of caution. Private sector hiring of skilled expatriates appears to have slowed over the last year. Also, consumers may be delaying certain big ticket items, with car sales appearing to have slowed considerably since 2014. Indeed, according to ARA Research & Consultancy, consumer confidence has weakened in late 2014 and in 2015, with consumers' future expectations being the most affected.

Activity in the real estate sector has cooled significantly in 2015, following a strong five-year run. Growth in real estate sales has declined following strong growth in 2014, though activity in commercial properties has been an exception. The residential and investment sectors have seen activity during 2015 decline by 28% and 32% respectively compared to the previous year. This has impacted property prices. Our own real estate price indices show that residential land prices per square meter declined by around 12% earlier in 2015 before ending the year up 0.8%. Home prices ended the year down 6.2%. We estimate that prices of investment buildings held up better with price growth easing to around 4.5% from a high of 26% growth the year before.

Following a lull in growth during the second half of 2014 and early 2015, credit growth appeared to pick up later in 2015. Credit growth accelerated to 8.0% as of December 2015. While household borrowing continued to see healthy growth and investment companies continued to reduce debt levels over the last few years, the business sector has seen a more mixed picture.

There was a modest pickup in inflation in 2015, though price growth already started easing towards the end of 2015. Housing rent and food prices were the main source of upward pressure. However, a cooling real estate market and modest international food inflation has already reduced inflationary pressures. Inflation rate ended the year at relatively reasonable levels; a result of a stronger dinar to other major currencies. Inflation averaged 3.3% in 2015, up from 3.0% in 2014.

The Central Bank of Kuwait (CBK) lifted its main policy rates at the end of 2015, with the benchmark discount rate lifted 25 basis points at 2.25% while the 1-week repo deposit rate remained unchanged at 1.5%. Interbank rates rose in 2015. The three-month interbank rate reached 1.56%, up around 60 basis points from the start of the year. Banks' retail deposit rates remained mostly steady as of November. The Kuwaiti dinar weakened further against the US dollar as the latter saw another year of strength while gaining strength against all other currencies. At year end, the dinar declined by 3.5% against the dollar while rising 2.9% against all other currencies.

Kuwaiti banks maintained their strong performance during the first nine months of 2015, with profits up 13% from a year ago to KD 575 million. Interest income has been the main growth driver, on higher loan volumes. Low interest rates and margins continued to pressure operating income growth. Banks' average return-on-equity (ROE) saw a marginal improvement, rising to 9.6% from 9.4% a year ago, but remained well below pre-crisis levels. Asset growth slowed to 4.7% y/y in September 2015, reaching KD 68 billion.

Corporate Governance Framework

Corporate Governance Framework

The year 2015 witnessed remarkable development in the effective adoption of corporate governance, where the Group sought to be in line with the practices and international recommendations relating to corporate governance matters, risk management, protecting stakeholder's rights, as well as complying with the regulatory requirements in Kuwait and all countries the Group operates in.

The Group has focused on raising the governance and compliance culture across all its entities, ensuring to build a balanced and non-complex business structure. This happens by adopting a pack of standards and controls, which the Group has implemented in obtaining information and exchanging them within its entities, whilst maintaining an effective supervisory role for the Board and its committees.

During the year 2015, the Group was able to achieve a number of key accomplishments on the effective implementation of corporate governance, which are as follows:

- Reviewed and developed the governance policies and charters in accordance with applicable rules and regulations.
- Developed and implemented new automated systems for compliance, operational risk, Foreign Account Tax Compliance Act (U.S.A), and Anti Money Laundering / Combating Financing of Terrorism.
- Established governance units at the subsidiaries to effectively implement corporate governance requirements and supporting the Board of directors and their committees.
- Organized workshops and awareness sessions for employees across the Group regarding corporate governance implementation and other regulatory requirements.
- Developed and updated the disclosure and transparency policy to adopt the latest requirements issued by the Capital Markets Authority.
- Conducted an independent review on the corporate governance framework on all the Group's entities to identify development areas.

Board and Committee Structure

The Board of Directors is composed of nine (9) non-executive members; who were elected through the General Assembly Meeting for a period of three years.

The Board Members collectively have deep knowledge and experience relevant to banking and other business sectors. The Board collectively has the skills in finance, economics, strategic planning, governance, internal controls, and risk management, in addition to outstanding experience in the local and regional business environment.

Transparency and efficiency are the key features which distinguish the structure of the Board of the NBK Group; the Board is always keen to maintain direct communication channels with all stakeholders. Moreover, the Board committees are responsible for the oversight of the implementation of corporate governance in all aspects, through following up the on the actions of the executive management.

The Group's governance structure including all the Board committees is illustrated as follows:

Board of Directors

Corporate Governance Committee

Mr. Nasser Musaed Al-Sayer (Board and Committee Chairman)

Mr. Hamad Abdul Aziz Al-Sager

Mr. Yacoub Yousef Al-Fulaij

Mr. Muthana Mohamed Al-Hamad

Key Mission:

Assist the Board in overseeing the implementation of the Group's corporate governance. The Committee is also responsible for monitoring the implementation progress of the policies and procedures pertaining to governance.

Nomination & Remuneration Committee

Mr. Ghassan Ahmed Al-Khalid (Committee Chairman)

Mr. Hamad Mohammed Al Bahar

Mr. Emad Mohamed Al Bahar

Key Mission:

Assist the Board in carrying out the Nomination and Remuneration responsibilities pertaining to the Directors and Executive Management. The Committee also supports the Board in reviewing and enhancing the Board Structure and development of the caliber of the Board Members, also assists the Board in setting up the Group's Remuneration Framework and ensures effective implementation in accordance with Group Remuneration Policy.

Audit Committee

Mr. Hamad Mohammed Al-Bahar (Committee Chairman)

Mr. Haitham Sulaiman Al-Khaled

Mr. Loay Jassim Al-Kharafi

Key Mission:

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, the oversight of financial statements, internal controls, as well as internal and external audit independence.

Risk Comittee

Mr. Ghassan Ahmed Al Khalid (Committee Chairman)

Mr. Haitham Sulaiman Al-Khaled

Mr. Loay Jassim Al-Kharafi

Key Mission:

Assists the Board in carrying out the Risk Management responsibilities through evaluating and monitoring the risk governance framework, risk appetite, risk strategy and capital planning. In addition, the supervision of regulatory compliance across the Group.

Credit Committe

Mr. Hamad Abdul Aziz Al Sager (Committee Chairman)

Mr. Yacoub Yousef Al-Fulaij

Mr. Muthana Mohamed Al-Hamad

Mr. Emad Mohamed Al Bahar

Key Mission:

Responsible for reviewing the quality and performance of the Group's credit portfolio. The Board has authorized the Committee to approve credit facilities which exceed the authorization granted to Senior Management, in accordance with the Credit Policy of the Group.

Frequency of Board of Directors and Board Committee Meetings

The Board of Directors held thirteen (13) meetings during the year 2015. Minutes of all meetings have been documented and are included in the Bank's records.

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

Board and committee composition and attendance	BOD	BCGC	BNRC	BRC	BAC	BCC
Total number of meetings	13	2	2	5	6	46
Mr. Nasser Musaed Al-Sayer (Chairman of BOD)	13	2				
Mr. Ghassan Ahmed Al-Khalid	9		2	4		
Mr. Hamad Abdul Aziz Al-Sager	7	2				15
Mr. Yacoub Yousef Al-Fulaij	9	2				28
Mr. Hamad Mohammed Al-Bahar	10		2		3	
Mr. Muthana Mohamed Al-Hamad	12	2				44
Mr. Haitham Sulaiman Al-Khaled	12			5	6	
Mr. Loay Jassim Al-Kharafi	8			5	5	
Mr. Emad Mohamed Al Bahar	12		2			38

It should be noted that the number of Committee meetings held during 2015 was in compliance with CBK Corporate Governance requirements.

Governance Key Achievements:

General overview:

The Board monitors the progress of strategy implementation through approved key performance indicators and mitigation action plans. During the year 2015, the Board has reviewed and developed the Group's Strategy and Risk Appetite including the future strategic plans of Subsidiaries and Overseas branches.

Any strategic changes, whether in the Group's structure or its operational framework, are subject to the Board's discussion and approval.

The Board gives great importance in implementing the corporate governance framework throughout the Group; this is monitored through report packs and set of procedures which are applied by the Group based on its philosophy and principles .These principles are embedded in the Group's culture and day-to-day business activities, and not only as supervisory instructions and legislative regulations.

Board of Directors Key Achievements:

- Discussed and approved the updated strategy of the Group.
- Discussed the risk appetite and its impact on the Group's strategy.
- Reviewed Internal Capital Adequacy Assessment Process ("ICAAP"), stress testing, and risk committee recommendations regarding capital and approved increases in capital satisfying regulatory requirement Basel (3).
- Approved the updated list of policies and charters relating to governance.
- Reviewed the structure of Boards and Committees at the subsidiaries and ensured building a structure which complies with the regulatory requirements and Group corporate governance framework.
- Followed the progress of the functions of the Group through regular meetings with Executive Management and discussed the results of the Group's business through periodic reports.
- 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 rewards structure and the mechanism of linking rewards to performance, and the level of risk exposure, and renewed the rewards policy at the Group level.
- Activated and developed the corporate governance framework at the Group level and ensured implementing local requirements in the countries it operates in which are in line with the Group framework.
- Ensured that the Group is adopting Corporate Governance leading practices by reviewing the tools and methods of implementing the governance and ensure effective code of conduct.
- Reviewed policies and charters for corporate governance at the Group level, which are in line with Group business structure and international leading practices.
- Conducted self-assessment for corporate governance at the Group level and identified the areas that need to be developed.
- Reviewed the results of the independent annual assessements for the governance framework, conducted through the Group Internal Audit function, and highlighted key aspects for improvement which are necessary for the governance framework.
- Established corporate governance units/sub-departments for subsidiaries and followed up on their achievements through periodic reports raised to the Corporate Governance committee and Board of Directors.

Board Committees Key Achievements:

	Achievements
BCGC	The Committee met twice during the year and the following key duties were achieved:
	• Developed the corporate governance framework for the subsidiaries.
	• Reviewed the Board committee's charters.
	• Reviewed and discussed the results of the annual evaluation of the Corporate Governance Framework.
	• Reviewed and updated the disclosure policy which is in line with the latest regulatory requirements and leading practices.
	• Discussed related parties transactions, conflict of interest reports and the effectiveness of the existing mechanisms.
	• Oversaw the work progress of the corporate governance implementation at the Group level and presented a report to the Board.

BNRC	Achievements The Committee met twice during the year and the following key duties were achieved:
	• Supervised the process of the Board of Directors performance evaluation and the self-assessment of the Board members.
	• Reviewed the Board structure and the nomination mechanism for the Board.
	• Reviewed the training needs of the Board members for training courses and professional skills that help to perform Board members supervisory role.
	• Reviewed the annual performance assessment of the Group Chief Executive Officer and his Deputy and put forward the recommendations to the Board for approval.
	• Reviewed and developed the existing Remuneration policy at the Group level.
	• Reviewed the rewards and incentives for 2015 based on the key performance and risk indicators and put forward the recommendations to the Board.
	• Reviewed the links between the remunerations and the Group 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 stock options for eligible employees and recommended a plan to the Board for approval.
	• Updated the Board with latest requirements issued by CMA relating to disclosure.
	• Coordinated with an external consultant to conduct awareness sessions for Board member on Anti-Money Laundering and Combating Financing of Terrorism.

BAC	Achievements The Committee met six (6) times during the year and the following key duties were achieved:
	• Reviewed and approved the Group's Internal Audit Plan for 2015 based on the Risk Assessment and audit focus areas. Also reviewed the Internal Audit policy and organizational structure and presented to the Board for approval.
	• Coordinated with the External Auditors and reviewed the quarterly and annual financial statements, and provided recommendations to the Board of Directors.
	• Reviewed and discussed internal audit summary and compared what has been achieved of the internal audit plan, in comparison to the performance during the previous year.
	• Discussed the results of the report of the annual Internal Controls Review
	• Reviewed the efficiency and independency 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.
	• Reviewed and discussed the terms of engagement with the External Auditor and provided recommendations related to the Audit fees with respect to the services provided.
	• Discussed external audit results related to the internal audit division.
	• Discussed and reviewed the content of the annual internal audit report which highlights the summary achievements before presenting to the Board.
	• Evaluated the Group Chief Internal Auditor's performance and determined his remuneration.

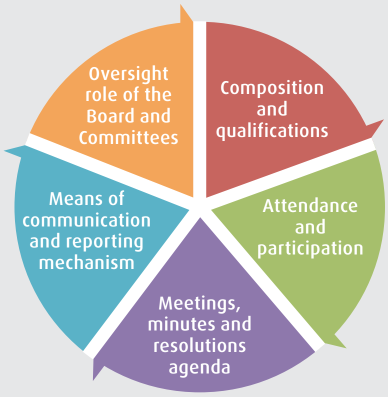
	Achievements
BRC	The Committee met five (5) times during the year and following key duties were achieved:
	• Reviewed and discussed the periodic risk management reports at the Group-level including the key risk indicators.
	• Reviewed and discussed the periodic market risk report, Internal Capital Adequacy Assessment Process (“ICAAP”), liquidity ratios, and the ratios related to stress testing and the methods in which they are dealt at Group level.
	• Reviewed risk appetite and limit exposure at the Group level and compared the percentage and its changes with the previous period.
	• Discussed the Capital Contingency Plan which was developed in coordination with specialized consulting firm.
	• Reviewed the operational risk report at Group level arranged by geographical distribution, in addition to concentration according to credit rating and risk sectors.
	• Reviewed and updated the international credit authorities and put forward the recommendations to the Board for approval.
	• Reviewed the IT risk report, discussed compliance report and Foreign Account Tax Compliance Act (FATCA) report at the Group level.
	• Reviewed and discussed risk management policies and presented to the Board for approval.
	• Reviewed and discussed the Group-wide limits for treasury activities and presented to the Board for approval.
	• Coordinated with the Board Nomination and Remuneration Committee to evaluate the incentives proposed and the extent of their relationship with risk limits.
	• Viewed the progress of completion of the implementation of the automated system at Group level related to Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT), Know-Your-Customer (KYC), and Foreign Account Tax Compliance Act (FATCA).
	• Reviewed the regulatory compliance remarks at the Group subsidiaries level through the self-evaluation results as well as the field visits and the review processes.
	• Evaluated the Group Chief Risk Officer’s performance and determined his remuneration.

	Achievements
BCC	The Committee met on a regular (weekly) basis and the following key duties were achieved:
	• 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

The Board Nomination and Remuneration Committee initiated an annual effectiveness review on current structure, along with the performance of the Board and each member ,under the supervision of the Board Chairman and through (BNRC). This review aimed at conducting a self-assessment for each Board Member to determine the aspects for development and the necessary training for the members.

The following graph illustrates the factors where the evaluation was based and included in the self-evaluation forms:



Based on the evaluation results, the committee presented their report to the Board including development areas for the Board of Directors during 2016.

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 System and Risk Management function are in place with sufficient authority, independence, resources and access to the business lines. The Board regards the internal audit function and external audit activities as integral parts of key control tools for independent review of information reported by Executive Management to the Board.

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

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

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

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

A summary of ICR report for the year ended 31 Dec 2014 was presented to the Board of Directors during 2015. The report does not highlight any significant issues.

Internal Control Review Report by the External Party

The Board of Directors

National Bank of Kuwait S.A.K.P.

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 1 March 2015, we have examined the accounting and other records and internal control systems at Kuwait, branches in Bahrain, Jordan, Kingdom of Saudi Arabia and United Arab Emirates ("UAE") and subsidiaries National Bank of Kuwait (Lebanon) SAL and National Bank of Egypt (together referred to as "the Group") which were in existence during the year ended 31 December 2014. We covered all area of the Group as follows:

• Corporate Governance; • Risk Management; • Anti-Money Laundering; • Consumer Banking; • Treasury;

• Corporate and Consumer Credit; • Human Resources; • Funds Control and Operations; • Financial Control;

• Administration; • Internal Audit; • Information Technology; • Legal;

• Financial Securities (limited to Kuwait only); • Confidentiality of Customer Information;

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 Kuwait Banks, CBK instructions dated 23 July 2013 concerning Combating Money Laundering Operations and Financing of Terrorism and Internal Standards on Assurance Engagement 3000.

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

As Board of Directors of the 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 2014, 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.

State of Kuwait

25 June 2015

Safi A. Al-Mutawa

License No 138 "A"
of KPMG Safi Al-Mutawa & Partners
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Group Risk Management & Structure

Risk Management & Compliance Structure

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

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

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

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

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

The Risk Management Group maintains a list of aggregated risks at the 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 for work to raise the professional level and levels of experience of the 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 which breaches NBK's stated risk appetite must be mitigated as a matter of priority to within acceptable levels.

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

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

The Group Risk Management & Compliance function has worked on identifying early warnings of breaches to the Risk Limits and Risk Appetite, and raise it to the attention of the Board Risk Committee and consequently to the Board of Directors.

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 the 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's strategy; these include financial and non-financial criteria and (where appropriate) Key Risk Indicators (KRIs).

For the purpose of granting remuneration, the Group has differentiated in its staff categories, between "material risk-takers," and financial and risk control functions.

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

During the year 2015, the Board Nomination and Remuneration Committee coordinated with the Board Risk Committee and the Group Chief Risk Officer to align risk appetite with performance objectives.

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

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

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

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

Claw-back applies on the non-vested portions in case long-term targets are not met or risk materializes. The claw-back mechanism is applicable on the ESOP component of variable compensation. The ESOP is available to a select 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 emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

The five senior Executives who received the highest remuneration packages, in addition to the Group Chief Financial Officer (CFO), Group Chief Internal Auditor (CIA) and Group Chief Risk Officer (CRO) (i.e., eight (8) officers in total) received a Group compensation aggregating KWD 6,928 thousand for the year ended in December.

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

Employees Categories	Number of Employees	Fixed Remuneration KD'000	Variable Remuneration KD'000 Cash	KD'000 ESOP	Total KD'000
Senior Management	62	7,136	6,820	1,435	15,391
Material Risk Takers	21	3,704	5,729	778	10,211
Financial and Risk Control	15	1,400	602	327	2,329

For Disclosure purposes

Senior Management includes all staff above and equivalent to the position of Assistant General Manager for all business units excluding Control Functions.

Material Risk-Takers include Group Chief Executive Officer and his deputy, the head of core business functions and their deputies.

Financial & Control functions include all staff equivalent and above the level of an Assistant General Manager in Financial Control, Risk Management and Compliance, Internal Audit and Anti-Money Laundering Unit.

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 has worked on a number of initiatives which 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 in the following:

Ethics Code

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

This code is subject to periodic review, to keep up to date with all the latest development 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 in all stages of banking procedures for its customers, to treat 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 package 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 to maintain the confidentiality of information relating to the Group's stakeholders, in accordance with the rules and regulations issued by the Central Bank of Kuwait and other regulatory bodies.

During the year 2015, 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 aims to adopt a whistle-blowing policy which encourages openness and trust amongst its employees, which 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 the 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

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

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 ensures, since inception, to establish professional and behavioral rules, and provide qualified staff who can serve customers optimally. In addition the Group continuously assures to follow regulatory instructions and to pioneer in international practices in customer service and protection. NBK has initiated taking appropriate procedures in implementing what is mentioned in the consumer protection instructions issued recently by the Central Bank of Kuwait and 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 Group. The Group discloses its relevant social activities on its website and, also, in the form of a separate "Corporate Social Responsibility Report 2015", as an independent report.

Risk Management

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 2015.

The principal subsidiaries of the Group are presented in note 24 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 29 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 21 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 17 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 2015 comprised 5,039,717,687 issued and fully-paid-up equity shares (2014: 4,799,731,131).

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

Table 1		
Regulatory Capital	**31st December 2015**	31st December 2014
Common Equity Tier 1	**1,965,705**	1,782,908
Additional Tier 1 Capital	**221,245**	8,893
Tier 1 Capital	**2,186,950**	1,791,801
Tier 2 Capital	**310,531**	163,176
Total Regulatory Capital	**2,497,481**	1,954,977

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 (to be increased through a transitional phase-in period until 2016) expressed as a percentage of Risk-weighted Assets are:

Table 2			
Minimum Capital Requirement*	CET1	Tier1	Total
31st December 2016	9.5%	11.0%	13.0%
31st December 2015	**9.0%**	**10.5%**	**12.5%**
31st December 2014	8.5%	10.0%	12.0%

* includes a Capital Conservation Buffer of 2.5% which is to be met through CET1 capital.

3. Capital Adequacy Ratio (continued)

The Domestic Systemically-Important Bank Buffer and Countercyclical Capital Buffer have not been required for the period ended 31st December 2015 in the MCR (nor at 2014).

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

Table 3	CET1	Tier1	Total
Group for 31st December 2015	13.24%	14.73%	16.83%
Group for 31st December 2014	13.24%	13.31%	14.52%

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	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	17.6%	17.6%	18.0%
NBK (Lebanon) S.A.L. (Lebanon)	34.0%	34.0%	34.0%
NBK Banque Privee (Suisse) S.A. (Switzerland)	20.3%	35.7%	35.7%
Boubyan Bank K.S.C.P. (Kuwait)	15.9%	15.9%	17.0%
			Total
Credit Bank of Iraq S.A. (Iraq)			318.2%
NBK Egypt S.A.E. (Egypt)			18.6%

		31 December 2014	
	CET1	Tier1	Total
NBK (International) plc (United Kingdom)	19.24%	19.24%	19.24%
NBK (Lebanon) S.A.L. (Lebanon)	32.93%	32.93%	32.93%
NBK Banque Privee (Suisse) S.A. (Switzerland)	23.47%	41.18%	41.18%
Boubyan Bank K.S.C.P. (Kuwait)	16.88%	16.94%	18.05%
			Total
Credit Bank of Iraq S.A. (Iraq)			286.20%
NBK Egypt S.A.E. (Egypt)			18.03%

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.

4.1. Credit risk: The total capital charge in respect of credit risk as at 31 December 2015 was KD 1,674,856 thousand (2014: KD 1,423,763 thousand) as detailed below:

Table 5	KD 000s					
	31 December 2015			31 December 2014		
	Gross credit exposure	**Risk-weighted assets**	**Capital charge**	**Gross credit exposure**	**Risk-weighted assets**	**Capital charge**
Cash	189,020	-	-	221,103	-	-
Claims on sovereigns	4,385,234	204,264	25,533	4,314,510	98,408	11,809
Claims on International Organisations	39,513	-	-	38,099	-	-
Claims on public sector entities	70,200	9,955	1,244	54,303	6,689	803
Claims on multilateral development banks	6,064	-	-	-	-	-
Claims on banks	5,870,492	1,600,708	200,088	4,824,351	1,265,163	151,820
Claims on corporates	11,901,021	7,209,774	901,222	10,432,149	6,251,889	750,227
Regulatory retail exposure	4,371,140	3,879,049	484,881	3,819,537	3,400,903	408,108
Past due exposures	69,504	46,733	5,842	70,019	47,090	5,651
Other exposures	666,451	448,361	56,046	765,588	794,552	95,345
Total	**27,568,639**	**13,398,844**	**1,674,856**	**24,539,659**	**11,864,694**	**1,423,763**

"Other exposures" above includes an amount of KD 326,690 thousand negative (2014: KD 249,924 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 30,265 thousand (2014: KD 48,881 thousand) as detailed below:

Table 6	KD 000's	
	31st December 2015	31st December 2014
Interest rate risk	2,063	2,848
Foreign exchange risk	28,202	46,033
Total	**30,265**	**48,881**

4.3. Operational risk: The total capital charge in respect of operational risk was KD 150,146 thousand (2014: KD 143,117 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.

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. Risk management (continued)

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.

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.

5. Risk management (continued)

5.2.3. Credit risk management structure (continued)

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

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

5.2.4. Key features of corporate credit risk management

- Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends and the customer's positioning within its industry peer-group.
- Internal credit-rating models are regularly reviewed by the Group risk management function in co-ordination with line management and the Executive Committee and continually enhanced in line with industry credit risk management "best practices".
- All new proposals and / or material changes to existing credit facilities are reviewed and approved by the appropriate credit committee outlined below:
  1. Board Credit Committee
  2. Senior Credit Committee
  3. International Credit Committees (Senior and Management)
  4. Management Credit Committee (for small- and medium-sized enterprises).
- 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. Within this framework, limits and approval authorities are exercised by the officers with defined approval authorities.
- Consumer Credit Risk Management functional areas are aligned with key concepts of Risk Management, namely, Governance, Control, Measurement and Reporting.
- Consumer credit risk is managed with three lines of defence. As the first line of defence, the consumer business lending group (i.e., underwriting) is responsible for adherence to the credit policies, controls and processes. As second line of defence, the Consumer Credit Risk Management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline & policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and implementation of policies & procedures.
- All significant credit policies and amendments to policies are reviewed and approved annually by the Executive Committee and ratified by the Board.

5. Risk management (continued)

5.2.5. Key features of consumer credit risk management (continued)

- 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

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

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

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

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

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

5.2.7. Group credit risk mitigation strategy

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

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

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Group's portfolio and collateral quality is continuously monitored and assessed. Risk transfer in the form of 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.

5. Risk management (continued)

5.2.8 Management of credit collateral and valuation (continued)

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

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

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

Table 7	KD 000s					
	31 December 2015			31 December 2014		
	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees	Gross credit exposure	Eligible Credit Risk Mitigation	Eligible guarantees
Cash	189,020	-	-	221,103	-	-
Claims on sovereigns	4,385,234	-	-	4,314,510	-	-
Claims on International Organisations	39,513	-	-	38,099	-	-
Claims on public sector entities	70,200	2,360	-	54,303	1,492	-
Claims on multilateral development banks	6,064	-	-	-	-	-
Claims on banks	5,870,492	7,862	1,366,580*	4,824,351	10,117	794,990*
Claims on corporates	11,901,021	3,116,912	-	10,432,149	3,049,592	-
Regulatory retail exposure	4,371,140	96,158	-	3,819,537	90,121	-
Past due exposures	69,504	7,887	-	70,019	10,305	-
Other exposures	666,451	-	-	765,588	-	-
Total	**27,568,639**	**3,231,179**	**1,366,580**	**24,539,659**	**3,161,627**	**794,990**

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

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures

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

Table 8	KD 000s					
	31 December 2015			31 December 2014		
	Gross credit exposure	Funded exposure	Unfunded exposure	Gross credit exposure	Funded exposure	Unfunded exposure
Cash	189,020	189,020	-	221,103	221,103	-
Claims on sovereigns	4,385,234	4,384,227	1,007	4,314,510	4,314,402	108
Claims on International Organisations	39,513	39,513	-	38,099	38,099	-
Claims on public sector entities	70,200	43,396	26,804	54,303	33,162	21,141
Claims on multilateral development banks	6,064	6,064	-	-	-	-
Claims on banks	5,870,492	4,198,712	1,671,780	4,824,351	3,753,372	1,070,979
Claims on corporates	11,901,021	9,399,445	2,501,576	10,432,149	8,368,769	2,063,380
Regulatory retail exposure	4,371,140	4,314,515	56,625	3,819,537	3,766,035	53,502
Past due exposures	69,504	69,504	-	70,019	70,019	-
Other exposures	666,451	666,451	-	765,588	765,588	-
Total	**27,568,639**	**23,310,847**	**4,257,792**	**24,539,659**	**21,330,549**	**3,209,110**

Table 9:	KD 000s					
	31 December 2015			31 December 2014		
Average Credit Exposures	*Average credit exposure	Funded exposure	Unfunded exposure	*Average credit exposure	Funded exposure	Unfunded exposure
Cash	195,812	195,812	-	231,802	231,802	-
Claims on sovereigns	4,818,986	4,815,988	2,998	4,355,221	4,355,112	109
Claims on International Organisations	39,655	39,655	-	12,700	12,700	-
Claims on public sector entities	65,975	39,812	26,163	54,459	30,935	23,524
Claims on multilateral development banks	7,089	6,042	1,047	960	960	-
Claims on banks	5,438,878	4,093,886	1,344,992	4,555,086	3,501,370	1,053,716
Claims on corporates	11,393,839	9,017,054	2,376,785	10,106,233	8,090,827	2,015,406
Regulatory retail exposure	4,176,810	4,122,521	54,289	3,692,090	3,639,036	53,054
Past due exposures	68,264	68,264	-	69,964	69,964	-
Other exposures	668,893	668,893	-	780,855	780,855	-
Total	**26,874,201**	**23,067,927**	**3,806,274**	**23,859,370**	**20,713,561**	**3,145,809**

*Based on quarterly average balances

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

Table 10:	KD 000's					
	31 December 2015			31 December 2014		
Net Credit Exposures	Net credit exposure	Funded exposure	Unfunded exposure	Net credit exposure	Funded exposure	Unfunded exposure
Cash	189,020	189,020	-	221,103	221,103	-
Claims on sovereigns	4,385,203	4,384,227	976	4,314,455	4,314,401	54
Claims on International Organisations	39,513	39,513	-	38,099	38,099	-
Claims on public sector entities	62,268	41,035	21,233	46,493	31,670	14,823
Claims on multilateral development banks	6,064	6,064	-	-	-	-
Claims on banks	5,019,998	4,190,860	829,138	4,280,381	3,743,245	537,136
Claims on corporates	7,607,931	6,327,942	1,279,989	6,423,558	5,364,134	1,059,424
Regulatory retail exposure	4,245,407	4,218,696	26,711	3,701,421	3,676,228	25,193
Past due exposures	61,618	61,618	-	59,714	59,714	-
Other exposures	666,451	666,451	-	765,588	765,588	-
Total	**22,283,473**	**20,125,426**	**2,158,047**	**19,850,812**	**18,214,182**	**1,636,630**

As at 31 December 2015, 39% (2014: 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:	KD 000's					
	31 December 2015			31 December 2014		
Net Credit Exposures	Net credit exposure	Rated exposure	Unrated exposure	Net credit exposure	Rated exposure	Unrated exposure
Cash	189,020	-	189,020	221,103	-	221,103
Claims on sovereigns	4,385,203	3,334,489	1,050,714	4,314,455	3,470,813	843,642
Claims on International Organisations	39,513	-	39,513	38,099	-	38,099
Claims on public sector entities	62,268	-	62,268	46,493	-	46,493
Claims on multilateral development banks	6,064	6,064	-	-	-	-
Claims on banks	5,019,998	4,813,371	206,627	4,280,381	4,019,455	260,926
Claims on corporates	7,607,931	600,159	7,007,772	6,423,558	554,194	5,869,364
Regulatory retail exposure	4,245,407	-	4,245,407	3,701,421	-	3,701,421
Past due exposures	61,618	-	61,618	59,714	-	59,714
Other exposures	666,451	-	666,451	765,588	-	765,588
Total	**22,283,473**	**8,754,083**	**13,529,390**	**19,850,812**	**8,044,462**	**11,806,350**

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.

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

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 2015	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	148,096	1,123	39,801	-	-	189,020
Claims on sovereigns	3,131,101	1,116,938	87,874	49,321	-	4,385,234
Claims on International Organisations	-	-	-	39,513	-	39,513
Claims on public sector Entities	70,200	-	-	-	-	70,200
Claims on multilateral development banks	6,064	-	-	-	-	6,064
Claims on banks	2,789,424	374,910	1,386,706	1,112,208	207,244	5,870,492
Claims on corporates	9,914,219	507,098	640,224	614,636	224,844	11,901,021
Regulatory retail exposure	4,366,311	393	4,246	-	190	4,371,140
Past due exposures	68,262	-	-	1,242	-	69,504
Other exposures	497,786	20,942	71,307	49,431	26,985	666,451
Total	**20,991,463**	**2,021,404**	**2,230,158**	**1,866,351**	**459,263**	**27,568,639**

31 December 2014	Middle East and North Africa	North America	Europe	Asia	Others	Total
Cash	172,307	847	47,949	-	-	221,103
Claims on sovereigns	3,251,630	980,101	62,898	19,881	-	4,314,510
Claims on International Organisations	38,099	-	-	-	-	38,099
Claims on public sector entities	54,303	-	-	-	-	54,303
Claims on banks	2,536,497	356,413	810,312	982,103	139,026	4,824,351
Claims on corporates	9,078,653	338,606	455,085	408,039	151,766	10,432,149
Regulatory retail exposure	3,813,382	597	5,558	-	-	3,819,537
Past due exposures	67,741	-	3	2,275	-	70,019
Other exposures	589,332	23,380	81,646	41,291	29,939	765,588
Total	**19,601,944**	**1,699,944**	**1,463,451**	**1,453,589**	**320,731**	**24,539,659**

5. Risk management (continued)

5.2.9. Gross, average and net credit exposures (continued)

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

Table 13		KD 000's		
31 December 2015	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	189,020	-	-	189,020
Claims on sovereigns	2,634,030	956,544	794,660	4,385,234
Claims on International Organisations	39,513	-	-	39,513
Claims on public sector entities	334	11,558	58,308	70,200
Claims on multilateral development banks	6,064	-	-	6,064
Claims on banks	3,155,471	758,966	1,956,055	5,870,492
Claims on corporates	4,809,089	2,165,070	4,926,862	11,901,021
Regulatory retail exposure	254,359	388,759	3,728,022	4,371,140
Past due exposures	69,504	-	-	69,504
Other exposures	88,025	50,246	528,180	666,451
Total	**11,245,409**	**4,331,143**	**11,992,087**	**27,568,639**
31 December 2014	Up to 3 months	3 to 12 months	Over 1 year	Total
Cash	221,103	-	-	221,103
Claims on sovereigns	2,975,148	678,064	661,298	4,314,510
Claims on International Organisations	38,099	-	-	38,099
Claims on public sector entities	9,000	13,509	31,794	54,303
Claims on banks	2,030,292	1,499,590	1,294,469	4,824,351
Claims on corporates	4,293,557	1,845,254	4,293,338	10,432,149
Regulatory retail exposure	177,116	355,217	3,287,204	3,819,537
Past due exposures	70,019	-	-	70,019
Other exposures	191,125	34,019	540,444	765,588
Total	**10,005,459**	**4,425,653**	**10,108,547**	**24,539,659**

5.2.10. "Past-due" and impairment provisions

Credit facilities are classified as "past-due" when a payment has not been received on its contractual payment date, or if the facility is in excess of pre-approved limits.

A credit facility is considered as "past-due and impaired" if the interest/profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

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

5.2.10. "Past-due" and impairment provisions (continued)

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 2015 was KD 190,092 thousand (2014: KD 186,412 thousand) against which a specific provision of KD 135,270 thousand (2014: KD 130,917 thousand) has been made, as detailed below:

Table 14		KD 000's	
31 December 2015	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	19	19	-
Claims on corporates	75,039	48,151	(26,875)
Regulatory retail exposure	115,034	87,100	(798)
Total	**190,092**	**135,270**	**(27,673)**

31 December 2014	Past due and impaired financing	Related Specific provision	Specific provision written off, net of exchange movement
Claims on sovereigns	31	31	-
Claims on corporates	91,145	56,192	(53,850)
Regulatory retail exposure	95,236	74,694	(1,404)
Total	**186,412**	**130,917**	**(55,254)**

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

Table 15			KD000's		
31 December 2015	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	186,789	-	3,298	5	190,092
Specific provision	132,953	-	2,312	5	135,270

31 December 2014	Middle East and North Africa	Europe	Asia	Others	Total
Past due and impaired financing	183,221	4	3,182	5	186,412
Specific provision	129,656	2	1,254	5	130,917

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.

5. Risk management (continued)

5.2.10. "Past-due" and impairment provisions (continued)

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

The Group's total provision as at 31 December 2015 was KD 643,820 thousand (2014: KD 541,539 thousand) inclusive of a general provision of KD 498,259 thousand (2014: KD 401,357 thousand) as detailed below:

Table 16	KD 000s	
	31 December 2015	31 December 2014
Claims on sovereigns	152	146
Claims on banks	6,623	4,912
Claims on corporates	440,689	350,977
Regulatory retail exposure	50,795	45,322
Total	**498,259**	**401,357**

The total general provision above includes KD 28,342 thousand (2014: KD 25,523 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					
31 December 2015	Middle East and North Africa	North America	Europe	Asia	Others	Total
31 December 2015	456,510	2,958	4,472	2,380	3,597	469,917
31 December 2014	365,601	2,266	3,883	1,569	2,515	375,834

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

5.3 "Market" risk

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

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

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

5.3.1. Market-risk management framework

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

5. Risk management (continued)

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

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

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

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

Table 18	KD 000's			
	+ 5bp	-5bp	+10bp	-10bp
31 December 2015	1,661	(1,661)	3,323	(3,323)
31 December 2014 (restated)	1,359	(1,359)	2,719	(2,719)

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 000s	
	31 December 2015	31 December 2014
Total Equity Investment	98,997	114,873
Of which Quoted Investments (%)	39.4%	44.0%
Cumulative realised gains from sale during year	1,054	7,527
Cumulative net unrealised gains recognised	17,011	19,377
Capital requirement of Equity investment portfolio categorised as:		
Available for sale	12,435	13,425
Fair value through statement of income	320	359

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

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

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

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

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

5. Risk management (continued)

5.3.4. Monitoring of counterparty credit risk

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

5.3.5. Counterparty Credit Risk

Assignment of credit limits for Counterparty Credit Exposures

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

Policies for securing collateral and credit reserves

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

Wrong-Way Risk

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

Additional Collateral Requirements Due to Credit Rating Downgrade

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

General Disclosure for Counterparty Credit Risk

Table 20	KD 000s	
Derivative Contracts	31 December 2015	31 December 2014 (restated)
Gross Positive fair value	**16,697**	**10,846**
Counterparty netting benefit	(7,555)	(6,329)
Netted current credit exposure	9,142	4,517
Cash collateral (held by NBK)	-	-
Net exposure (after netting and collateral)	**9,142**	**4,517**

5. Risk management (continued)

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 000s	
	31 December 2015	31 December 2014
Counterparty Credit Risk (CEM method) for derivatives' counterparties	41,789	29,638
Counterparty Credit Risk (PFE method) for derivatives' counterparties	19,637	17,195

Notional value of credit derivatives transactions

NBK has no exposure to credit derivatives.

5.4. Operational risk

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

5.4.1. Operational-risk management framework

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

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

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

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

5.5. Liquidity risk

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

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

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 5.3% (2014: 4.3%) to reach KD 3,368 million on 31 December 2015 (2014: KD 3,198 million).

II. Composition of Capital

1. Composition of Regulatory Capital

For regulatory purposes, the capital base is divided into:

- Common Equity Tier 1
- Tier 1 Capital
- 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 000s	
	31 December 2015	31 December 2014
Common Equity Tier 1 capital before regulatory adjustments	2,747,849	2,640,418
Total regulatory adjustments to Common Equity Tier 1	(782,144)	(857,510)
Common Equity Tier 1 capital (CET1)	**1,965,705**	**1,782,908**
Additional Tier 1 capital (AT1)	221,245	8,893
Tier 1 capital (T1 = CET1 + AT1)	**2,186,950**	**1,791,801**
Tier 2 capital (T2)	310,531	163,176
Total capital (TC = T1 + T2)	**2,497,481**	**1,954,977**
Total risk-weighted assets	**14,842,129**	**13,464,676**
Capital ratios and buffers		
Common Equity Tier 1 (as percentage of risk-weighted assets)	13.2%	13.2%
Tier 1 (as percentage of risk-weighted assets)	14.7%	13.3%
Total capital (as percentage of risk-weighted assets)	16.8%	14.5%
National minima		
Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.0%	8.5%
Tier 1 minimum ratio	10.5%	10.0%
Total capital minimum ratio excluding CCY and D-SIB buffers	12.5%	12.0%

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 (Step 1) 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.

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 23: Steps 1 and 2 of Reconciliation requirements	KD 000s		
Item	Balance sheet as in published financial statements 31-Dec-15	Under regulatory scope of consolidation 31-Dec-15	Reference
Assets			
Cash and short-term funds	3,481,371	3,481,371	
Central Bank of Kuwait bonds	803,930	803,930	
Kuwait Government treasury bonds	380,052	380,052	
Deposits with banks	1,426,679	1,426,679	
Loans, advances and Islamic financing to customers	13,550,966	13,550,966	
of which General Provisions(netted above) capped for Tier 2 inclusion	*171,569*	*171,569*	*a*
Investment securities	2,784,334	2,784,334	
Investment in associates	92,713	92,713	
of which goodwill deducted from CET1 Capital	*26,751*	*26,751*	*b*
Land, premises and equipment	226,501	226,501	
Goodwill and other intangible assets	677,594	677,594	
of which goodwill deducted from CET1 Capital	*474,174*	*474,174*	*c*
of which other intangibles deducted from CET1 Capital	*203,420*	*203,420*	*d*
Other assets	173,490	173,490	
Total assets	**23,597,630**	**23,597,630**	
Liabilities			
Due to banks and other financial institutions	7,306,467	7,306,467	
Customers deposits	12,059,203	12,059,203	
Certificates of deposit issued	655,257	655,257	
Subordinated Tier 2 bonds	124,664	124,664	
Principal amount recognised in Tier 2 capital	*125,000*	*125,000*	*e*
Other liabilities	260,915	260,915	
Total liabilities	**20,406,506**	**20,406,506**	
Shareholders' Equity			
Share capital	503,972	503,972	f
Proposed bonus shares	25,198	25,198	g
Statutory reserve	251,986	251,986	h
Share premium account	699,840	699,840	i
Treasury shares	(77,799)	(77,799)	j

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 23: Steps 1 and 2 of Reconciliation requirements (continued)			
Treasury shares reserve	13,994	13,994	k
Other Reserves	1,338,748	1,338,748	
of which Retained Earnings eligible as CET1 Capital	*1,107,221*	*1,107,221*	*l*
of which Proposed Dividend	*148,443*	*148,443*	
of which Others eligible as CET1 Capital	*83,084*	*83,084*	*m*
Equity attributable to shareholders of the Bank	**2,755,939**	**2,755,939**	
Perpetual Tier 1 Capital Securities	210,700	210,700	n
Non-controlling interests	224,485	224,485	
of which Limited Recognition eligible as CET1 Capital	*62,554*	*62,554*	*o*
of which Limited Recognition eligible as AT1 Capital	*10,545*	*10,545*	*p*
of which Limited Recognition eligible as Tier 2 Capital	*13,962*	*13,962*	*q*
Total equity	**3,191,124**	**3,191,124**	
Total liabilities and equity	**23,597,630**	**23,597,630**	

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.

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 24: Step 3 of Reconciliation requirements

Relevant Row Number in Common Disclosure Template	Common Equity Tier 1 capital: instruments and reserves	Component of regulatory capital	Source based on reference letters of the balance sheet from step 2
1	Directly issued qualifying common share capital plus related stock surplus	503,972	f
2	Retained earnings	1,107,221	l
3	Accumulated other comprehensive income (and other reserves)	1,074,102	g+h+i+k+m
5	Common share capital issued by subsidiaries and held by third parties (minority interest)	62,554	o
6	Common Equity Tier 1 capital before regulatory adjustments	2,747,849	
	Common Equity Tier 1 capital: regulatory adjustments		
8	Goodwill	(500,925)	b+c
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(203,420)	d
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(77,799)	j
28	Total regulatory adjustments to Common Equity Tier 1	(782,144)	
29	Common Equity Tier 1 capital (CET1)	1,965,705	
	Additional Tier 1 capital : instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	210,700	n
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)	10,545	p
36	Additional Tier 1 capital before regulatory adjustments	221,245	
	Additional Tier 1 capital : regulatory adjustments		
44	Additional Tier 1 capital (AT1)	221,245	
45	Tier 1 capital (T1 = CET1 + AT1)	2,186,950	
	Tier 2 capital : instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	125,000	e

5. Risk management (continued)

2. Reconciliation requirements (continued)

Table 24: Step 3 of Reconciliation requirements

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)	13,962	q
50	General Provisions included in Tier 2 Capital	171,569	a
51	Tier 2 capital before regulatory adjustments	310,531	
	Tier 2 capital: regulatory adjustments		
58	Tier 2 capital (T2)	310,531	
59	Total capital (TC = T1 + T2)	2,497,481	

III. Leverage

1. Leverage Ratio

In October 2014, 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	31 December 2015	31 December 2014
Tier 1 Capital (KD 000s)	2,186,950	1,791,801
Total Exposures (KD 000s)	25,636,063	23,064,834
Leverage Ratio	8.5%	7.8%

2. Leverage Ratio Exposures

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

Table 26 Total Exposures	31 December 2015	31 December 2014
On-balance sheet exposures	22,893,285	21,005,416
Derivative exposures	75,151	92,693
Off-balance sheet items	2,667,627	1,966,725
Total exposures	25,636,063	23,064,834

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

5. Risk management (continued)

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 2015	31 December 2014
1	Total consolidated assets as per published financial statements	23,597,630	21,784,131
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 recognised on the balance sheet pursuant to the operative accounting framework but excluded from the Leverage Ratio exposure measure		
4	Adjustments for derivative financial instruments	75,151	92,693
5	Adjustment for securities financing transactions (ie repos and similar secured lending)		
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,667,627	1,966,725
7	Other adjustments	(704,345)	(778,715)
8	**Leverage Ratio exposure**	**25,636,063**	**23,064,834**

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 three non-executive Board members, where the Chairman of the Board of Directors is not a member of the Committee.

The main objective of the Committee is to carry out the nomination and remuneration responsibilities pertaining to the Directors and Executives. 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:

1. Prepare the remuneration policy and submit the same to the Board for approval. The Board is responsible for monitoring the implementation of the policy.
2. Review the remuneration policy at least on an annual basis or at the request of the Board, and provide the Board with policy amendments or update suggestions.
3. Evaluate the sufficiency and effectiveness of the remuneration policy on a periodic basis to ensure the achievement of its declared objectives.

5. Risk management (continued)

IV. Remuneration Disclosures (continued)

5. Make recommendations to the Board regarding the level and components of the remuneration of the Group CEO and the Group's executive team, taking into consideration the total remuneration including salaries, bonuses and other incentives.
6. Co-ordinate with the BRC and the Board Audit Committee, respectively, in the process of determination of Group CRO and Group Head of Audit performance evaluation criteria and remuneration.

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

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

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

First Category: Senior Management

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

The number of persons in this category as of 31 December 2015 is 62.

Second Category: Material Risk-Takers

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

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

The number of persons in this category as of 31 December 2015 is 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 2015 is 15.

b. Remuneration Structure and Components

NBK's remuneration policy is in line with the strategic objectives of the Group. The policy is designed mainly to attract, retain and motivate high-calibre, skilled and knowledgeable employees, thereby ensuring a sound risk management and sustained profitability.

5. Risk management (continued)

b. Remuneration Structure and Components (continued)

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

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

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

The Employee Stock Option Plan (ESOP) is availed selectively to certain Eligible Employees.

The Group applies a deferment approach of up to three years and final vesting of this variable component 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 ESOP component of variable compensation.

During the year the Committee reviewed and updated the remuneration policy to reflect key decisions taken by the Board and to ensure effective alignment with the Group strategy.

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

c. 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 operational. The policy ensures adequate linkage between the performance and the 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 the Group reviewed its key risk indicators and discussed the same with the Board Risk Committee during its regular meetings. The Group applied the key risk indicators (KRIs) this year and linked them to the overall remuneration pool without significant change from last year's KRIs.

5. Risk management (continued)

d. 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 loans (NPL)

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.

e. 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 equity shares as per the ESOP terms.

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 3 years.

5. Risk management (continued)

f. Types of Remuneration Components

The Group has two main remuneration components (fixed and variable). The variable component is mainly linked with performance and is subject to the deferment approach as mentioned above.

The fixed component (salaries, benefits) is on cash basis, while the variable component (bonuses and other incentives) is divided into cash basis (performance bonus) and equity (ESOP).

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

The percentage between fixed and variable (cash and equity) is reviewed and approved by the Board on an annual basis.

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.

2. Quantitative Information

1. During the year, the Board Nomination and Remuneration Committee met two times. The total remuneration paid to the Committee members is Nil.
2. The number of persons (Senior Management and Material Risk-Takers) eligible for variable remuneration is 63 persons and they represent 3.5 % of the overall NBK total staff number eligible for variable remuneration for 2015.
3. The total number of persons (Senior Management and Material Risk-Takers) is 63 persons. Their total remuneration for 2015 is KD 15,480 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 2015 is KD 310 thousand; this is related to 7 persons (Senior Management and Material Risk-Takers).

5. Risk management (continued)

Senior Management:

Table 28

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
Cash	7,136	Nil
ESOP	Nil	Nil
Variable remuneration:		
Cash	6,374	
ESOP		1,435
Others (Note 1)	446	

Material Risk Takers:

Table 29

Total salaries & remuneration granted during reported period	Unrestricted (KD 000s)	Deferred (KD 000s)
Fixed remuneration:		
Cash	3,704	Nil
ESOP	Nil	Nil
Variable remuneration:		
Cash	5,604	9
ESOP		778
Others (Note 1)	116	

Note 1: This consists of other performance incentives

Table 30

Employees Category	Number of employees in this category	Grand Total Remuneration Fixed and Variable (KD 000s)
Senior Management	62	15,391
Material Risk Takers	21	10,211
Financial and Risk Control	15	2,329

5. Risk management (continued)

V. Appendices

1. Regulatory Capital Composition: Common Disclosure Template

Table 31 Row Number	Common Equity Tier 1 capital: instruments and reserves	KD 000s
1	Directly issued qualifying common share capital plus related stock surplus	503,972
2	Retained earnings	1,107,221
3	Accumulated other comprehensive income (and other reserves)	1,074,102
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)	62,554
6	Common Equity Tier 1 capital before regulatory adjustments	2,747,849
	Common Equity Tier 1 capital: regulatory adjustments	
7	Prudential valuation adjustments	
8	Goodwill (net of related tax liability)	(500,925)
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(203,420)
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)	(77,799)
17	Reciprocal cross holdings in common equity of banks, Fis, and insurance entities	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions , where the bank does not own more than 10% of the issued share capital(amount above 10% threshold of bank's CET1 capital)	
20	Mortgage servicing rights (amount above 10% threshold of bank's CET1 capital)	
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	(782,144)
29	Common Equity Tier 1 capital (CET1)	1,965,705
	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)	10,545
35	of which: instruments issued by subsidiaries subject to phase out	-
36	Additional Tier 1 capital before regulatory adjustments	221,245
	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)	221,245
45	Tier 1 capital (T1 = CET1 + AT1)	2,186,950
	Tier 2 capital: instruments and provisions	
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)	13,962
49	of which: instruments issued by subsidiaries subject to phase out	-
50	General Provisions included in Tier 2 Capital	171,569
51	Tier 2 capital before regulatory adjustments	310,531

	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)	310,531
59	Total capital (TC = T1 + T2)	2,497,481
60	Total risk-weighted assets	14,842,129
	Capital ratios and buffers	
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	13.2%
62	Tier 1 (as percentage of risk-weighted assets)	14.7%
63	Total capital (as percentage of risk-weighted assets)	16.8%
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)	9.0%
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	-
68	Common Equity Tier 1 available to meet buffers (as percentage of risk-weighted assets)	6.7%
	National minima	
69	Common Equity Tier 1 minimum ratio including Capital Conservation Buffer	9.0%
70	Tier 1 minimum ratio	10.5%
71	Total capital minimum ratio excluding CCY and D-SIB buffers	12.5%
	Amounts below the thresholds for deduction (before risk weighting)	
72	Non-significant investments in the capital of other financials	40,896
73	Significant investments in the common stock of financial entities	64,676
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)	498,259
77	Cap on inclusion of allowances in Tier 2 under standardised approach	171,569
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	

5. Risk management (continued)

2. Regulatory Capital : Main Features Template

The Bank's share capital as at 31 December 2015 comprised 5,039,717,687 issued and fully-paid-up equity shares(note 19 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-Amortised 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 6-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

Leverage Ratio: Common Disclosure Template

Table 32	Item	KD 000s
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	23,597,630
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(704,345)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**22,893,285**
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	16,697
5	Add-on amounts for PFE associated with all derivatives transactions	58,454
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)**	**75,151**
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)	-

off-balance sheet exposures	Other	
17	Off-balance sheet exposure at gross notional amount	10,054,413
18	(Adjustments for conversion to credit equivalent amounts)	(7,386,786)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**2,667,627**
20	**Tier 1 capital**	**2,186,950**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**25,636,063**
22	**Basel III leverage ratio**	**8.5%**

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/A336/2014 dated 24 June 2014
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	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.
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.

CONSOLIDATED FINANCIAL STATEMENTS

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait SAKP ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2015.

2015 Financial Performance

The Group reported a net profit after non-controlling interests of KD 282.2 million compared to KD 261.8 million for 2014, an increase of 7.8%. Operating profit amounted to KD 494.1 million as compared to KD 446 million in 2014, an increase of 10.8%.

Net interest income and net income from Islamic financing at KD 530.2 million reflects a 13% increase on 2014 (KD 469.3 million). Net fees and commissions at KD 129.8 million reflects a 6.5% increase on 2014 (KD 121.8 million). Net investment income amounted to KD 31.9 million as compared to KD 33.1 million in 2014 and net gains from dealing in foreign currencies amounted to KD 33.2 million as compared to KD 27.2 million in 2014.

Operating expenses amounted to KD 234.7 million as compared to KD 215.1 million in 2014. The cost to income ratio for 2015 stood at 32.2% as compared to 32.5% in 2014.

Provision charge for credit losses and impairment losses amounted to KD 164.4 million as compared to KD 146.7 million in 2014.

The return on average equity at 10.5% remained same as 2014.

2015 Balance Sheet

Total assets of the Group grew to KD 23,597.6 million, from KD 21,784.1 million at the end of 2014, an increase of 8.3%. Loans, advances and Islamic financing to customers grew by KD 1,642.3 million, to KD 13,551 million, an increase of 13.8%. Investment securities grew by KD 290.6 million, to KD 2,784.3 million, an increase of 11.7%

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 4,665.4 million at the year end. Deposits with banks amounted to KD 1,426.7 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities amounted to KD 469.9 million at the year end as compared to KD 375.8 million in 2014, whilst specific provisions increased to KD 143 million from KD 138.8 million in 2014. 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 799.5 million, to KD 12,059.2 million at the year end, an increase of 7.1%. 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 600.8 million to KD 7,306.5 million. Certificates of Deposit issued decreased by KD 19.8 million, to KD 655.3 million.

During the year the Bank issued Kuwaiti Dinar denominated Subordinated Tier 2 bonds amounting to KD 125 million with a tenor of up to 10 years.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 278.3 million at the year end against collateral of KD 337.4 million. Deposits of Board members and related parties were KD 30.1 million. Loans and facilities to the Group's Executive Management amounted to KD 2.7 million whilst deposits from the Group's executive management amounted to KD 3.2 million.

Equity

Total equity attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 148.4 million amounted to KD 2,607.5 million, as compared to KD 2,511.9 million at the end of 2014.

During the year the Bank issued Perpetual Tier 1 Capital Securities amounting to USD 700 million, eligible to be classified as part of equity.

The Basel III capital adequacy ratio was 16.8% at the year end (2014: 14.5%) as compared to the CBK prescribed regulatory minimum of 12.5%. The leverage ratio was 8.5% at the year end (2014: 7.8%) 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.

Share Based Compensation Plan

The Bank operates an equity settled share based compensation plan and granted 1,925,883 (2014: 2,611,732) share options to senior executives in 2015 with a fair value of KD 0.710 (2014: KD 0.710) per share option. The Bank operates this plan as an incentive to retain eligible employees, enhance loyalty to the Bank and attract experienced and skilled personnel.

As per the provisions of the share based compensation plan, options remain owned by the bank during the vesting period and will vest if employees remain in service for a period of three years from the grant date. Employees can exercise options within one year from the vesting date. Options will expire if not exercised within one year from the vesting date.

The General Assembly of the Bank's shareholders on 11 March 2012 authorized the Board of Directors to designate the appropriate number of treasury shares to be used for the purpose of implementing the aforesaid plan during the term of the plan and in accordance with its provisions and the resolutions of the Bank's general assembly of 18 February 2006 and 20 February 2008 and the resolution of the Minister of Commerce and Industry No. 337 of 2004.

Bonus Shares, Dividends and Proposed Appropriations

The net profit for the year was principally allocated as follows:

1. KD 148.4 million to the dividend account for the distribution of a cash dividend of 30 fils per share (30 fils in 2014) subject to the approval of shareholders at the annual general meeting.
2. KD 25.2 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2015 (5% for 2014) (equivalent to 251,985,884 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 12 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 96.5 million to retained earnings.

Important Financial Indicators

KD million	*2015*	*2014*	*2013*
Total assets	23,597.6	21,784.1	18,600.1
Loans, advances and Islamic financing to customers	13,551.0	11,908.7	10,695.3
Customer deposits	12,059.2	11,259.7	10,478.0
Total operating income	728.8	661.0	626.3
Profit attributable to shareholders of the parent Bank	282.2	261.8	238.1

	Notes	**2015** KD 000's	2014 KD 000's	**2015** USD 000's	2014 USD 000's
Interest income	4	**585,084**	513,518	**1,927,789**	1,691,987
Interest expense	5	**139,427**	114,046	**459,397**	375,769
Net interest income		**445,657**	399,472	**1,468,392**	1,316,218
Muabaha and other Islamic financing income		**106,369**	87,061	**350,475**	286,857
Distribution to depositors and Murabaha costs		**21,875**	17,195	**72,076**	56,656
Net income from Islamic financing		**84,494**	69,866	**278,399**	230,201
Net interest income and net income from Islamic financing		**530,151**	469,338	**1,746,791**	1,546,419
Net fees and commissions	6	**129,802**	121,846	**427,683**	401,470
Net investment income	7	**31,936**	33,132	**105,226**	109,166
Net gains from dealing in foreign currencies		**33,154**	27,213	**109,239**	89,664
Share of results of associates		**220**	7,657	**725**	25,229
Other operating income		**3,494**	1,860	**11,512**	6,128
Non-interest income		**198,606**	191,708	**654,385**	631,657
Net operating income		**728,757**	661,046	**2,401,176**	2,178,076
Staff expenses		**137,213**	122,402	**452,102**	403,301
Other administrative expenses		**77,168**	72,412	**254,260**	238,590
Depreciation of premises and equipment		**15,338**	15,215	**50,537**	50,132
Amortisation of intangible assets	15	**4,968**	5,062	**16,369**	16,679
Operating expenses		**234,687**	215,091	**773,268**	708,702
Operating profit before provision for credit losses and impairment losses		**494,070**	445,955	**1,627,908**	1,469,374
Provision for credit losses and impairment losses	8	**164,397**	146,695	**541,671**	483,344
Operating profit before taxation		**329,673**	299,260	**1,086,237**	986,030
Taxation	9	**33,154**	25,606	**109,239**	84,369
Profit for the year		**296,519**	273,654	**976,998**	901,661
Attributable to:					
Shareholders of the Bank		**282,160**	261,810	**929,687**	862,636
Non-controlling interests		**14,359**	11,844	**47,311**	39,025
		296,519	273,654	**976,998**	901,661
Basic and diluted earnings per share attributable to shareholders of the Bank	10	**56 fils**	53 fils	**18 Cents**	17 Cents

The attached notes 1 to 30 form part of these consolidated financial statements.

	Notes	**2015 KD 000's**	2014 KD 000's	**2015 USD 000's**	2014 USD 000's
Profit for the year		**296,519**	273,654	**976,998**	901,661
Other comprehensive income:					
Net gains on investments available for sale transferred to consolidated statement of income	7	**(8,496)**	(26,547)	**(27,993)**	(87,470)
Impairment losses on investments available for sale transferred to consolidated statement of income	8	**10,557**	11,155	**34,784**	36,755
Change in fair value of investments available for sale		**(14,380)**	25,034	**(47,381)**	82,484
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate		**(8,471)**	-	**(27,911)**	-
Share of other comprehensive income of associates		**111**	322	**366**	1,061
Exchange differences on translation of foreign operations		**(12,794)**	8,922	**(42,155)**	29,397
Other comprehensive (loss) income for the year reclassifiable to consolidated statement of income in subsequent years		**(33,473)**	18,886	**(110,290)**	62,227
Total comprehensive income for the year		**263,046**	292,540	**866,708**	963,888
Attributable to:					
Shareholders of the Bank		**249,505**	279,135	**822,092**	919,720
Non-controlling interests		**13,541**	13,405	**44,616**	44,168
		263,046	292,540	**866,708**	963,888

The attached notes 1 to 30 form part of these consolidated financial statements.

	Notes	**2015 KD 000's**	2014 KD 000's	**2015 USD 000's**	2014 USD 000's
Assets					
Cash and short term funds	11	**3,481,371**	3,131,991	**11,470,745**	10,319,575
Central Bank of Kuwait bonds	13	**803,930**	534,688	**2,648,863**	1,761,740
Kuwait Government treasury bonds	13	**380,052**	344,529	**1,252,231**	1,135,186
Deposits with banks		**1,426,679**	2,050,515	**4,700,754**	6,756,227
Loans, advances and Islamic financing to customers	12	**13,550,966**	11,908,708	**44,648,982**	39,237,918
Investment securities	13	**2,784,334**	2,493,693	**9,174,082**	8,216,451
Investment in associates	14	**92,713**	119,398	**305,479**	393,404
Land, premises and equipment		**226,501**	203,414	**746,297**	670,227
Goodwill and other intangible assets	15	**677,594**	696,416	**2,232,600**	2,294,616
Other assets	16	**173,490**	162,371	**571,631**	534,995
Investment in an associate held for sale	14	**-**	138,408	**-**	456,040
Total assets		**23,597,630**	21,784,131	**77,751,664**	71,776,379
Liabilities					
Due to banks and other financial institutions		**7,306,467**	6,705,717	**24,074,026**	22,094,620
Customer deposits		**12,059,203**	11,259,736	**39,733,783**	37,099,624
Certificates of deposit issued		**655,257**	675,065	**2,159,002**	2,224,267
Subordinated Tier 2 bonds	17	**124,664**	-	**410,754**	-
Other liabilities	18	**260,915**	273,073	**859,687**	899,746
Total liabilities		**20,406,506**	18,913,591	**67,237,252**	62,318,257
Equity					
Share capital	19	**503,972**	479,973	**1,660,534**	1,581,460
Proposed bonus shares	20	**25,198**	23,999	**83,025**	79,074
Statutory reserve	19	**251,986**	239,987	**830,267**	790,731
Share premium account	19	**699,840**	699,840	**2,305,898**	2,305,898
Treasury shares	19	**(77,799)**	(78,795)	**(256,339)**	(259,621)
Treasury share reserve	19	**13,994**	14,878	**46,108**	49,022
Other reserves	19	**1,338,748**	1,273,389	**4,411,031**	4,195,680
Equity attributable to shareholders of the Bank		**2,755,939**	2,653,271	**9,080,524**	8,742,244
Perpetual Tier 1 Capital Securities	21	**210,700**	-	**694,234**	-
Non-controlling interests		**224,485**	217,269	**739,654**	715,878
Total equity		**3,191,124**	2,870,540	**10,514,412**	9,458,122
Total liabilities and equity		**23,597,630**	21,784,131	**77,751,664**	71,776,379

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 30 form part of these consolidated financial statements.

	Notes	2015 KD 000's	2014 KD 000's	2015 USD 000's	2014 USD 000's
Operating activities					
Profit for the year		**296,519**	273,654	**976,998**	901,661
Adjustments for:					
Net investment income	7	**(31,936)**	(33,132)	**(105,226)**	(109,166)
Share of results of associates		**(220)**	(7,657)	**(725)**	(25,229)
Depreciation of premises and equipment		**15,338**	15,215	**50,537**	50,132
Amortisation of intangible assets	15	**4,968**	5,062	**16,369**	16,679
Provision charge for credit losses and impairment losses	8	**164,397**	146,695	**541,671**	483,344
Share based payment reserve	22	**1,658**	1,480	**5,463**	4,876
Taxation	9	**33,154**	25,606	**109,239**	84,369
Operating profit before changes in operating assets and liabilities		**483,878**	426,923	**1,594,326**	1,406,666
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		**(269,242)**	(229)	**(887,123)**	(755)
Kuwait Government treasury bonds		**(35,523)**	(24,281)	**(117,045)**	(80,003)
Deposits with banks		**623,836**	(1,150,843)	**2,055,473**	(3,791,904)
Loans, advances and Islamic financing to customers		**(1,768,227)**	(1,347,672)	**(5,826,119)**	(4,440,435)
Other assets		**(11,119)**	73,759	**(36,636)**	243,028
Due to banks and other financial institutions		**600,750**	1,760,852	**1,979,406**	5,801,819
Customer deposits		**799,467**	781,688	**2,634,159**	2,575,578
Certificates of deposit issued		**(19,808)**	434,081	**(65,265)**	1,430,250
Other liabilities		**(9,015)**	44,130	**(29,703)**	145,404
Tax paid		**(32,351)**	(22,513)	**(106,593)**	(74,178)
Net cash from operating activities		**362,646**	975,895	**1,194,880**	3,215,470
Investing activities					
Purchase of investment securities		**(1,532,673)**	(1,466,122)	**(5,049,993)**	(4,830,715)
Proceeds from sale/redemption of investment securities		**1,226,291**	1,350,475	**4,040,497**	4,449,670
Dividend income	7	**2,939**	3,839	**9,684**	12,649
Proceeds from disposal of an associate	14	**157,857**	-	**520,122**	-
Acquisition of non-controlling interests		**-**	(3,752)	**-**	(12,362)
Dividend from associates		**587**	11,554	**1,934**	38,069
Proceeds from sale of land, premises and equipment		**1,003**	414	**3,305**	1,364
Purchase of land, premises and equipment		**(39,428)**	(26,844)	**(129,911)**	(88,448)
Net cash used in investing activities		**(183,424)**	(130,436)	**(604,362)**	(429,773)
Financing activities					
Net proceeds from issue of Perpetual Tier 1 Capital Securities	21	**209,724**	-	**691,018**	-
Net proceeds from issue of Subordinated Tier 2 bonds	17	**124,664**	-	**410,754**	-
Dividends paid		**(141,374)**	(134,610)	**(465,812)**	(443,525)
Interest paid on Perpetual Tier 1 Capital Securities		**(6,087)**	-	**(20,056)**	-
Proceeds from sale of treasury shares		**112**	161	**369**	530
Dividends paid by a subsidiary to non-controlling interests		**(4,087)**	-	**(13,466)**	-
Net cash from (used in) financing activities		**182,952**	(134,449)	**602,807**	(442,995)
Increase in cash and short term funds		**362,174**	711,010	**1,193,325**	2,342,702
Exchange differences on translation of foreign operations		**(12,794)**	8,922	**(42,155)**	29,397
Cash and short term funds at the beginning of the year		**3,131,991**	2,412,059	**10,319,575**	7,947,476
Cash and short term funds at the end of the year	11	**3,481,371**	3,131,991	**11,470,745**	10,319,575

The attached notes 1 to 30 form part of these consolidated financial statements.

National Bank of Kuwait Group
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	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 19e)	Total	Perpetual Tier 1 Capital Securities	Non - controlling interests	Total equity
At 1 January 2014	457,117	22,856	228,559	699,840	(80,302)	16,224	1,164,550	2,508,844	-	202,950	2,711,794
Profit for the year	-	-	-	-	-	-	261,810	261,810	-	11,844	273,654
Other comprehensive income	-	-	-	-	-	-	17,325	17,325	-	1,561	18,886
Total comprehensive income	-	-	-	-	-	-	279,135	279,135	-	13,405	292,540
Transfer to statutory reserve (Note 19b)	-	-	11,428	-	-	-	(11,428)	-	-	-	-
Issue of bonus shares (Note 19a)	22,856	(22,856)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	-	161
Dividends paid	-	-	-	-	-	-	(134,610)	(134,610)	-	-	(134,610)
Proposed bonus shares (Note 20)	-	23,999	-	-	-	-	(23,999)	-	-	-	-
Share based payment	-	-	-	-	-	-	1,230	1,230	-	109	1,339
Capital increase/redemption (net) in subsidiaries	-	-	-	-	-	-	-	-	-	2,989	2,989
Acquisition of non-controlling interest	-	-	-	-	-	-	(1,421)	(1,421)	-	(2,331)	(3,752)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	-	147	79
At 31 December 2014	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	**2,870,540**
Profit for the year	-	-	-	-	-	-	282,160	**282,160**	-	14,359	**296,519**
Other comprehensive loss	-	-	-	-	-	-	(32,655)	**(32,655)**	-	(818)	**(33,473)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**249,505**	**249,505**	**-**	**13,541**	**263,046**
Transfer to statutory reserve (Note 19b)	-	-	11,999	-	-	-	(11,999)	**-**	-	-	**-**
Issue of bonus shares (Note 19a)	23,999	(23,999)	-	-	-	-	-	**-**	-	-	**-**
Sale of treasury shares	-	-	-	-	996	(884)	-	**112**	-	-	**112**
Dividends paid	-	-	-	-	-	-	(141,374)	**(141,374)**	-	-	**(141,374)**
Issue of Perpetual Tier 1 Capital Securities (Note 21)	-	-	-	-	-	-	-	**-**	210,700	-	**210,700**
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,087)	**(6,087)**	-	-	**(6,087)**
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(976)	**(976)**	-	-	**(976)**
Proposed bonus shares (Note 20)	-	25,198	-	-	-	-	(25,198)	**-**	-	-	**-**
Share based payment	-	-	-	-	-	-	1,470	**1,470**	-	188	**1,658**
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	**-**	-	(4,087)	**(4,087)**
Capital redemption in a subsidiary	-	-	-	-	-	-	-	**-**	-	(2,458)	**(2,458)**
Change in effective holding in a subsidiary	-	-	-	-	-	-	18	**18**	-	32	**50**
At 31 December 2015	**503,972**	**25,198**	**251,986**	**699,840**	**(77,799)**	**13,994**	**1,338,748**	**2,755,939**	**210,700**	**224,485**	**3,191,124**

The attached notes 1 to 30 form part of these consolidated financial statements.

1 - INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 10 January 2016. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank (commercial registration number - 8490) with the Central Bank of Kuwait. The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait. The principal activities of the Bank are described in Note 3.

2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year. Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2015 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments: Classification and Measurement

The IASB issued IFRS 9 Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with permission to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non- financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15: Revenue from Contracts with customers

IFRS 15 was issued by IASB on 28 May 2014, effective for annual periods beginning on or after 1 January 2018. IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31 from the effective date. This new standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the impact of IFRS 15 but does not expect any significant effect on adoption of this standard.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation

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

a. Subsidiaries

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 24 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

b. Non-controlling interest

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

c. Associates

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

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

2.4 Foreign currencies

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

a. Translation of foreign currency transactions

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

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

b. Translation of financial statements of foreign entities

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

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

2.5 Interest income and expenses

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

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

2.6 Murabaha and other Islamic financing income

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

2.7 Fees and commissions income

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Dividend income

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

2.9 Impairment of financial assets

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

a. Assets carried at amortised cost

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

b. Assets classified as available for sale

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

2.10 Impairment of non-financial assets

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

2.11 Share based compensation

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

2.12 Post employment benefits

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

2.13 Taxation

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

2.14 Recognition of financial assets and financial liabilities

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

2.15 Cash and short term funds

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

2.16 Deposits with banks

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

2.17 Loans and advances to customers

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

Carrying value

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

Renegotiated loans

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

2.18 Islamic financing to customers

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

a. Murabaha

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

b. Wakala

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

c. Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amounts equal to the net investment outstanding in the leases less provision for impairment.

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial Investments

The Group classifies its financial investments in the following categories:

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

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

Held to maturity

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

Available for sale

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

Investments carried at fair value through statement of income

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

2.20 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, in the most advantageous market to which the Group has access at that date.

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

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

2.21 Repurchase and resale agreements

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

2.22 Offsetting of financial assets and liabilities

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

2.23 Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Derivative financial instruments

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

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

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

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

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

2.25 Trade and settlement date accounting

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

2.26 Investment properties

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

2.27 Land, premises and equipment

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

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

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

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

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

2.28 Business combinations

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

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

2.29 Goodwill and intangible assets

a. Goodwill

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

b. Intangible assets

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.30 - Property acquired on settlement of debt

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

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

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

2.32 - Islamic customer deposits

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

Murabaha payable

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortised cost.

Investment accounts

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

Non-investment accounts

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

2.33 Subordinated Tier 2 Bonds

Subordinated Tier 2 Bonds are financial liabilities and are initially recognised at their fair value being the issue proceeds net of transaction costs and are subsequently measured at their amortised cost using the effective interest rate method.

2.34 Financial guarantees

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

2.35 Treasury shares

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

2.36 Fiduciary assets

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

2.37 Significant accounting judgements and estimates

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

Accounting Judgements

Impairment of available for sale equity investments

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

Classification of investments

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

Estimation uncertainty and assumptions

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

Impairment of goodwill

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

Provision for credit losses

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

Fair values of assets and liabilities including intangibles

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

Share-based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 22.

Valuation of unquoted financial assets

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

2.38 Basis of translation

The United States dollar amounts in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows represent supplementary information and have been translated at a rate of KD 0.30350 per USD which represents the mid-market rate at 31 December 2015.

3 - SEGMENTAL ANALYSIS

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

Consumer and Private Banking

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

Corporate Banking

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

Investment Banking and Asset Management

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

Islamic Banking

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

Group Centre

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

International

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

2015	***Consumer and Private Banking***	***Corporate Banking***	***Investment Banking and Asset Management***	***Islamic Banking***	***Group Centre***	***International***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
Net interest income and net income from Islamic financing	**171,176**	**121,951**	**142**	**84,494**	**18,016**	**134,372**	**530,151**
Net operating income	**229,373**	**162,527**	**23,809**	**94,680**	**40,068**	**178,300**	**728,757**
Depreciation and amortisation expenses	**4,121**	**477**	**122**	**2,636**	**9,278**	**3,672**	**20,306**
Profit (loss) for the year	**134,452**	**129,842**	**12,175**	**35,185**	**(95,072)**	**79,937**	**296,519**
Total assets	**4,051,853**	**5,256,655**	**62,942**	**3,132,885**	**2,163,474**	**8,929,821**	**23,597,630**
Total liabilities	**3,988,777**	**2,092,663**	**8,819**	**2,812,086**	**2,010,953**	**9,493,208**	**20,406,506**

2014	*Consumer and Private Banking*	*Corporate Banking*	*Investment Banking and Asset Management*	*Islamic Banking*	*Group Centre*	*International*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Net interest income and net income from Islamic financing	160,231	115,468	179	69,866	16,694	106,900	469,338
Net operating income	213,736	155,758	26,183	80,714	29,316	155,339	661,046
Depreciation and amortisation expenses	4,343	521	101	2,178	9,425	3,709	20,277
Profit (loss) for the year	133,003	107,667	13,838	28,505	(85,154)	75,795	273,654
Total assets	3,643,908	4,857,286	62,147	2,647,930	2,444,552	8,128,308	21,784,131
Total liabilities	3,834,766	2,044,509	8,288	2,346,828	2,271,658	8,407,542	18,913,591

Geographic information:

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

	2015 KD 000's	2014 KD 000's
Net operating income		
Kuwait	**550,457**	505,707
Other Middle East and North Africa	**131,248**	113,954
Europe	**24,497**	23,786
Others	**22,555**	17,599
	728,757	661,046

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

	2015 KD 000's	2014 KD 000's
Non-current assets		
Kuwait	**914,370**	920,417
Other Middle East and North Africa	**35,024**	36,185
Europe	**1,349**	934
Others	**456**	349
	951,199	957,885

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

4 - INTEREST INCOME

	2015 KD 000's	2014 KD 000's
Deposits with banks	**32,613**	23,192
Loans and advances to customers	**430,524**	390,618
Debt investment securities	**111,942**	90,178
Other	**10,005**	9,530
	585,084	513,518

5 - INTEREST EXPENSE

	2015 KD 000's	2014 KD 000's
Due to banks and other financial institutions	**44,750**	30,161
Customer deposits	**91,764**	82,839
Certificates of deposit issued	**2,222**	1,046
Subordinated Tier 2 bonds	**691**	-
	139,427	114,046

6 - NET FEES AND COMMISSIONS

	2015 KD 000's	2014 KD 000's
Fees and commissions income	**153,351**	141,493
Fees and commissions related expenses	**(23,549)**	(19,647)
Net fees and commissions	**129,802**	121,846

Fees and commissions income includes KD 28,672 thousand (2014: KD 28,721 thousand) relating to asset management fees earned on trust and fiduciary activities in which the Group holds or invests assets on behalf of its customers.

7 - NET INVESTMENT INCOME

	2015 KD 000's	2014 KD 000's
Net realised gains on available for sale investments	**8,496**	26,547
Net losses from investments carried at fair value through statement of income	**(183)**	(198)
Dividend income	**2,939**	3,839
Gain on sale of investment in an associate (Note 14)	**21,862**	-
Net (losses) gains from investment properties	**(1,178)**	2,944
	31,936	33,132

8 - PROVISION CHARGE FOR CREDIT LOSSES AND IMPAIRMENT LOSSES

	2015 KD 000's	2014 KD 000's
Provision charge for credit losses (Note 12)	**129,959**	135,540
Impairment losses on investment securities	**10,557**	11,155
Impairment losses on associates (Note 14)	**18,481**	-
Impairment losses on intangible assets (Note 15)	**5,400**	-
	164,397	146,695

9 - TAXATION

	2015 KD 000's	2014 KD 000's
National labour support tax	**7,022**	6,489
Zakat	**3,084**	1,870
Contribution to Kuwait Foundation for the Advancement of Sciences	**2,573**	2,372
Overseas tax	**20,475**	14,875
	33,154	25,606

10 - EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (further adjusted for interest payment on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year net of treasury shares.

Diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank (further adjusted for interest payment on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issuance of employee share options does not result in any change from the reported basic earnings per share.

	2015	2014
	KD 000's	KD 000's
Profit for the year attributable to shareholders of the Bank	**282,160**	261,810
Less: Interest payment on Perpetual Tier 1 Capital Securities	**(6,087)**	-
	276,073	261,810
Weighted average number of shares outstanding during the year (thousands)	**4,948,014**	4,946,772
Basic and diluted earnings per share	**56 fils**	53 fils

Earnings per share calculations for 2014 have been adjusted to take account of the bonus shares issued in 2015.

11 - CASH AND SHORT TERM FUNDS

	2015	2014
	KD 000's	KD 000's
Cash on hand	**187,571**	220,349
Current account with other banks	**1,361,545**	1,300,426
Money at call	**190,562**	250,400
Balances with the Central Bank of Kuwait	**5,442**	38,767
Deposits and Murabaha with banks maturing within seven days	**1,736,251**	1,322,049
	3,481,371	3,131,991

12 - LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	Middle East and North Africa	**North America**	**Europe**	**Asia**	**Others**	**Total**
2015	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**	**KD 000's**
Corporate	**8,557,890**	**257,859**	**361,965**	**276,611**	**386,459**	**9,840,784**
Retail	**4,318,942**	**430**	**3,699**	**-**	**-**	**4,323,071**
Loans, advances and Islamic financing to customers	**12,876,832**	**258,289**	**365,664**	**276,611**	**386,459**	**14,163,855**
Provision for credit losses						**(612,889)**
						13,550,966

	Middle East and North Africa	North America	Europe	Asia	Others	Total
2014	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Corporate	7,679,450	188,914	307,010	183,648	274,092	8,633,114
Retail	3,787,185	21	2,986	-	-	3,790,192
Loans, advances and Islamic financing to customers	11,466,635	188,935	309,996	183,648	274,092	12,423,306
Provision for credit losses						(514,598)
						11,908,708

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

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2015	2014	2015	2014	2015	2014
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at beginning of the year	**138,764**	145,371	**375,834**	290,082	**514,598**	435,453
Amounts written off net of exchange movement	**(27,673)**	(55,254)	**(6)**	117	**(27,679)**	(55,137)
Provided during the year	**31,881**	48,647	**94,089**	85,635	**125,970**	134,282
Balance at end of the year	**142,972**	138,764	**469,917**	375,834	**612,889**	514,598

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

	Corporate		Retail		Total	
	2015	2014	2015	2014	2015	2014
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Balance at beginning of the year	**68,712**	82,846	**70,052**	62,525	**138,764**	145,371
Amounts written off net of exchange movements	**(25,596)**	(53,850)	**(2,077)**	(1,404)	**(27,673)**	(55,254)
Provided during the year	**17,315**	39,716	**14,566**	8,931	**31,881**	48,647
Balance at end of the year	**60,431**	68,712	**82,541**	70,052	**142,972**	138,764

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

	Specific		General		Total	
	2015	2014	2015	2014	2015	2014
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash facilities	**31,881**	48,647	**94,089**	85,635	**125,970**	134,282
Non cash facilities	**1,171**	39	**2,818**	1,219	**3,989**	1,258
Provision charge for credit losses	**33,052**	48,686	**96,907**	86,854	**129,959**	135,540

The available provision on non-cash facilities of KD 30,931 thousand (2014: KD 26,941 thousand) is included under other liabilities (Note 18).

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

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

	2015	2014
	KD 000's	KD 000's
Loans, advances and Islamic financing to customers	**190,092**	186,412
Provisions	**135,270**	130,917

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2015 amounts to KD 30,654 thousand (2014: KD 48,052 thousand). The collateral consists of cash, securities, bank guarantees and properties.

13 - FINANCIAL INVESTMENTS

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

2015	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	**115,042**	**1,374,274**	**-**	**1,489,316**
Debt securities - Non Government	**4,452**	**1,007,668**	**-**	**1,012,120**
Equities	**-**	**96,437**	**2,560**	**98,997**
Other investments	**-**	**116,204**	**67,697**	**183,901**
	119,494	**2,594,583**	**70,257**	**2,784,334**
Central Bank of Kuwait bonds	**803,930**	**-**	**-**	**803,930**
Kuwait Government treasury bonds	**380,052**	**-**	**-**	**380,052**
	1,303,476	**2,594,583**	**70,257**	**3,968,316**

2014	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
Investment securities				
Debt securities - Government (Non Kuwait)	107,512	1,164,863	-	1,272,375
Debt securities - Non Government	4,295	919,455	-	923,750
Equities	-	111,878	2,995	114,873
Other investments	-	118,839	63,856	182,695
	111,807	2,315,035	66,851	2,493,693
Central Bank of Kuwait bonds	534,688	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	344,529
	991,024	2,315,035	66,851	3,372,910

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 2,974 thousand (2014: KD 3,075 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 10,557 thousand (2014: KD 11,155 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

14 - INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2015	2014
	KD 000's	KD 000's
Bank Syariah Muamalat Indonesia T.B.K.	**41,559**	47,597
Bank of London and the Middle East	**36,762**	37,669
Turkish Bank A.S.	**5,541**	24,962
United Capital Bank	**5,151**	5,022
Others	**3,700**	4,148
	92,713	119,398

	Country of incorporation	Principal business	% Effective ownership	
			2015	2014
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	**30.5**	30.5
Bank of London and the Middle East	United Kingdom	Banking	**25.6**	25.6
Turkish Bank A.S.	Turkey	Banking	**34.3**	34.3
United Capital Bank	Sudan	Banking	**21.7**	21.7

Summarised financial information of the material associate of the Group, Bank Syariah Muamalat Indonesia T.B.K. is as follows:

	2015	2014
	KD 000's	KD 000's
Assets	**1,198,995**	1,418,835
Liabilities	**1,120,050**	1,332,605
Net assets	**78,945**	86,230
Contingent liabilities	**18,286**	26,071
Net operating income	**64,137**	40,791
Net profit (loss)	**657**	(10,225)
Other comprehensive (loss) income for the year	**(7)**	117

Carrying amount of investment in Bank Syariah Muamalat Indonesia T.B.K. consists of the Group's share of net assets and goodwill identified on acquisition.

Other associates	**2015**	2014
	KD 000's	KD 000's
Share of results for the year	**20**	1,475
Share of other comprehensive income for the year	**113**	11

During the year the Group received dividend amounting to KD 587 thousand from associates (2014: KD 11,554 thousand).

During the year the Group provided KD 18,481 thousand by way of impairment in respect of its associates, consisting primarily of KD 15,212 thousand for its investment in Turkish Bank A.S. Impairment in respect of Turkish Bank A.S. is calculated as the difference between fair value less cost of disposal and the carrying value. Fair value less cost of disposal is determined using a combination of valuation techniques. Significant inputs used in valuation techniques include profit forecast for 5 years period, discount rate of 17.8%, terminal growth rate of 4.5% and market multiples.

During 2014 the Bank entered into an agreement to sell its 30% equity interest in International Bank of Qatar Q.S.C. for a sales consideration of KD 157,857 thousand. The investment was accordingly reclassified as an associate held for sale in the consolidated statement of financial position as at 31 December 2014. The Bank concluded the sale transaction during the current year and recognised a pre-tax gain net of certain settlement costs amounting to KD 21,862 thousand inclusive of other comprehensive income of KD 8,471 thousand. This amount is included under net investment income in the consolidated statement of income. The Bank also incurred exit costs amounting to KD 4,676 thousand which are included under other administrative expenses.

15 - GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	Intangible Assets KD 000's	Total KD 000's
Cost			
At 1 January 2015	**481,711**	**243,591**	**725,302**
Exchange rate adjustments	**(7,537)**	**(2,265)**	**(9,802)**
At 31 December 2015	**474,174**	**241,326**	**715,500**
Accumulated amortisation & impairment			
At 1 January 2015	**-**	**28,886**	**28,886**
Amortisation charge for the year	**-**	**4,968**	**4,968**
Impairment charge for the year	**-**	**5,400**	**5,400**
Exchange rate adjustments	**-**	**(1,348)**	**(1,348)**
At 31 December 2015	**-**	**37,906**	**37,906**
Net book value			
At 31 December 2015	**474,174**	**203,420**	**677,594**

	Goodwill KD 000's	Intangible assets KD 000's	Total KD 000's
Cost			
At 1 January 2014	480,429	243,240	723,669
Exchange rate adjustments	1,282	351	1,633
At 31 December 2014	481,711	243,591	725,302
Accumulated amortisation			
At 1 January 2014	-	23,584	23,584
Charge for the year	-	5,062	5,062
Exchange rate adjustments	-	240	240
At 31 December 2014	-	28,886	28,886
Net book value			
At 31 December 2014	481,711	214,705	696,416

Net book value of goodwill as at 31 December 2015 includes KD 334,531 thousand (2014: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 136,701 thousand (2014: KD 144,299 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,942 thousand (2014: KD 2,881 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2015 includes banking licences and brand amounting to KD 170,221 thousand (2014: KD 173,933 thousand), customer relationships and core deposits amounting to KD 20,657 thousand (2014: KD 22,810 thousand) and brokerage licences amounting to KD 12,542 thousand (2014: KD 17,962 thousand). Intangible assets with indefinite useful life amounts to KD 171,165 thousand (2014: KD 176,585 thousand). Intangible assets with definite useful life amounting to KD 32,255 thousand (2014: KD 38,120 thousand) are amortised over a period of 5 to 15 years.

Impairment testing for goodwill and intangible assets with indefinite useful life

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

15 - GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% (2014: 9.25%) and a terminal growth rate of 3.5% (2014: 4.5%) are used to estimate the recoverable amount of this cash generating unit. The goodwill in respect of National Bank of Kuwait - Egypt S.A.E. is allocated to a single CGU which consists of identifiable net assets including intangible assets of National Bank of Kuwait - Egypt S.A.E. A discount rate of 16% (2014: 16%) and a terminal growth rate of 5% (2014: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 10% (2014: 8.5%) and terminal growth rate of 3.5% (2014: 4.5%) are used to estimate the recoverable amount of the brokerage licence in Kuwait. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin.

Based on such analysis, the Group has recorded an impairment loss of KD 5,400 thousand in respect of the brokerage licence in Kuwait. There are no indications that the remaining goodwill or intangible assets with indefinite useful life are impaired.

16 - OTHER ASSETS

	2015	2014
	KD 000's	KD 000's
Interest receivable	**52,759**	41,824
Sundry debtors and prepayments	**50,833**	44,494
Investment properties	**23,397**	25,638
Properties acquired on settlement of debts	**23,707**	32,417
Others	**22,794**	17,998
	173,490	162,371

17 - SUBORDINATED TIER 2 BONDS

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

18 - OTHER LIABILITIES

	2015	2014
	KD 000's	KD 000's
Interest payable	**40,249**	37,273
Income received in advance	**22,846**	22,775
Taxation	**20,569**	19,766
Provision on non-cash facilities (Note 12)	**30,931**	26,941
Accrued expenses	**40,011**	37,574
Staff payables	**29,822**	31,317
Others	**76,487**	97,427
	260,915	273,073

19 - SHARE CAPITAL AND RESERVES

a) Share capital

	2015 KD 000's	2014 KD 000's
Authorised, issued and fully paid:		
5,039,717,687 (2014 : 4,799,731,131) shares of KD 0.100 each	**503,972**	479,973

Extraordinary general assembly meeting of the shareholders held on 7 March 2015 approved an increase of KD 23,998,655.600 in the authorised, issued and fully paid share capital of the Bank by issuing 239,986,556 bonus shares representing 5% of the share capital on the date of the extraordinary general assembly meeting. The authorised, issued and fully paid share capital increased from KD 479,973,113.100 to KD 503,971,768.700 and the change in share capital was recorded in the commercial register on 10 March 2015.

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

	2015	2014
Number of shares in issue as at 1 January	**4,799,731,131**	4,571,172,506
Bonus issue	**239,986,556**	228,558,625
Number of shares in issue as at 31 December	**5,039,717,687**	4,799,731,131

b) Statutory reserve

The Board of Directors recommended a transfer of KD 11,999 thousand (2014: KD 11,428 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly, the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

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

c) Share premium account

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

d) Treasury shares and Treasury share reserve

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

	2015	2014
Number of treasury shares	**91,626,899**	88,381,436
Treasury shares as a percentage of total shares in issue	**1.8%**	1.8%
Cost of treasury shares (KD thousand)	**77,799**	78,795
Market value of treasury shares (KD thousand)	**73,302**	80,427
Weighted average market value per treasury share (fils)	**845**	960

Movement in treasury shares was as follows:

	No. of shares	
	2015	2014
Balance as at 1 January	**88,381,436**	85,782,085
Bonus issue	**4,363,258**	4,208,639
Sales	**(1,117,795)**	(1,609,288)
Balance as at 31 December	**91,626,899**	88,381,436

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

19 - SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
							KD 000's
At 1 January 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the year	-	261,810	-	-	-	-	261,810
Other comprehensive income	-	-	8,269	9,056	-	-	17,325
Total comprehensive income	-	261,810	8,269	9,056	-	-	279,135
Transfer to statutory reserve (Note 19b)	-	(11,428)	-	-	-	-	(11,428)
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Proposed bonus shares (Note 20)	-	(23,999)	-	-	-	-	(23,999)
Proposed cash dividend 30 fils per share (Note 20)	-	(141,340)	-	-	-	141,340	-
Share based payment	-	-	-	-	1,230	-	1,230
Acquisition of non-controlling interest	-	(1,421)	-	-	-	-	(1,421)
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
At 31 December 2014	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the year	-	282,160	-	-	-	-	**282,160**
Other comprehensive loss	**-**	**-**	(18,252)	(14,403)	**-**	**-**	**(32,655)**
Total comprehensive income (loss)	**-**	**282,160**	**(18,252)**	**(14,403)**	**-**	**-**	**249,505**
Transfer to statutory reserve (Note 19b)	-	(11,999)	-	-	-	-	**(11,999)**
Dividends paid	-	-	-	-	-	(141,374)	**(141,374)**
Dividends on treasury shares sold	-	(34)	-	-	-	34	**-**
Interest paid on perpetual Tier 1 Capital Securities	-	(6,087)	-	-	-	-	**(6,087)**
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(976)	-	-	-	-	**(976)**
Proposed bonus shares (Note 20)	-	(25,198)	-	-	-	-	**(25,198)**
Proposed cash dividend 30 fils per share (Note 20)	-	(148,443)	-	-	-	148,443	**-**
Share based payment	-	-	-	-	1,470	-	**1,470**
Change in effective holding in a subsidiary	-	18	-	-	-	-	**18**
At 31 December 2015	**117,058**	**1,107,221**	**(79,749)**	**29,472**	**16,303**	**148,443**	**1,338,748**

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

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

20 - PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2014: 30 fils per share) and bonus shares of 5% (2014: 5%) on outstanding shares as at 31 December 2015. The cash dividend, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the annual general assembly meeting and the bonus shares, if approved by the shareholders' general assembly, shall be payable to the shareholders registered in the records of the Bank as of the date of the regulatory approval for distribution of bonus shares.

21 - PERPETUAL TIER 1 CAPITAL SECURITIES

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

22 - SHARE BASED PAYMENT

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.710 (2014: KD 0.710). The significant inputs into the model were a share price of KD 0.890 (2014: KD 0.890) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 21.9% (2014: 27.7%), option life disclosed above and annual risk free interest rate of 2% (2014: 2%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

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

	2015	*2014*
	No. of share options	*No. of share options*
Outstanding at 1 January	**5,275,605**	5,073,908
Granted during the year	**1,925,883**	2,611,732
Exercised during the year	**(1,117,795)**	(1,609,288)
Lapsed during the year	**(445,950)**	(800,747)
Outstanding at 31 December	**5,637,743**	5,275,605

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

The expense accrued on account of share based compensation plans for the year amounts to KD 1,658 thousand (2014: KD 1,480 thousand) and is included under staff expenses.

23 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

2015	***Level 1***	***Level 2***	***Level 3***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
Debt securities	**1,537,093**	**813,163**	**31,686**	**2,381,942**
Equities and other investments	**129,797**	**70,223**	**79,904**	**279,924**
	1,666,890	**883,386**	**111,590**	**2,661,866**
Derivative financial instruments (Note 26)	**-**	**(28,944)**	**-**	**(28,944)**

2014	*Level 1*	*Level 2*	*Level 3*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
Debt securities	1,297,935	747,294	39,089	2,084,318
Equities and other investments	132,225	79,704	82,564	294,493
	1,430,160	826,998	121,653	2,378,811
Derivative financial instruments (Note 26)	-	(27,494)	-	(27,494)

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

	At 1 January 2015	***Change in fair value***	***Additions/ Transfers***	***Sale/ redemption***	***Exchange rate movements***	***At 31 December 2015***	***Net gains in the consolidated statement of income***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
Debt securities	**39,089**	**-**	**-**	**(7,397)**	**(6)**	**31,686**	**1,675**
Equities and other investments	**82,564**	**(4,748)**	**8,804**	**(8,608)**	**1,892**	**79,904**	**6,688**
	121,653	**(4,748)**	**8,804**	**(16,005)**	**1,886**	**111,590**	**8,363**

	At 1 January 2014	*Change in fair value*	*Additions*	*Sale/ redemption*	*Exchange rate movements*	*At 31 December 2014*	*Net gains in the consolidated statement of income*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Debt securities	44,900	-	-	(5,875)	64	39,089	1,892
Equities and other investments	89,619	(1,317)	2,440	(9,002)	824	82,564	13,447
	134,519	(1,317)	2,440	(14,877)	888	121,653	15,339

Debt securities included in this category consists of unquoted corporate bonds issued by banks and financial institutions. The fair values of these bonds are estimated using discounted cash flow method using credit spread ranging from 2% to 3.9% (2014: 1.4% to 3.9%). Equities and other securities included in this category mainly include strategic equity investments and private equity funds which are not traded in an active market. The fair values of these investments are estimated by using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings. Given the diverse nature of these investments, it is not practical to disclose a range of significant unobservable inputs.

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

Sensitivity analysis on fair value estimations, by varying input assumptions by a reasonable margin, did not indicate any material impacts on consolidated statement of financial position or consolidated statement of income.

24 - SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2015	*2014*
National Bank of Kuwait (International) plc	United Kingdom	Banking	**100.0**	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment Management	**100.0**	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	**85.5**	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment Company	**100.0**	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	**84.3**	84.3
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	**99.9**	99.9
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	**86.7**	86.7
National Bank of Kuwait - Egypt S.A.E.	Egypt	Banking	**98.5**	98.5
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	**58.4**	58.4

At 31 December 2015, 38.1% (2014: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 30.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	2015	*2014*
	KD 000's	*KD 000's*
Accumulated balances of non-controlling interest	**207,231**	201,333
Profit attributable to non-controlling interest	**13,449**	11,057

Summarised financial information of Boubyan Bank K.S.C.P. are as follows:

	2015	*2014*
Summarised financial information	***KD 000's***	*KD 000's*
Assets	**3,132,885**	2,647,930
Liabilities	**2,812,086**	2,346,828
Net operating income	**91,353**	78,405
Results for the year	**35,185**	28,505
Other comprehensive (loss) income for the year	**(3,717)**	3,503

	2015	*2014*
Summarised cash flow information	***KD 000's***	*KD 000's*
Operating cash flow	**181,000**	161,852
Investing cash flow	**(18,339)**	(51,999)
Financing cash flow	**(12,223)**	(654)

25 - COMMITMENTS AND CONTINGENT LIABILITIES

	2015 KD 000's	2014 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**118,367**	116,379
Letters of credit	**320,673**	302,231
Guarantees	**3,466,160**	2,457,116
	3,905,200	2,875,726

Irrevocable commitments to extend credit amount to KD 755,668 thousand (31 December 2014: KD 644,854 thousand). This represents commitments to extend credit which is irrevocable over the life of the facility or is revocable only in response to a material adverse change.

In the normal course of business the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 93,456 thousand (31 December 2014: KD 124,327 thousand)

26 - DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to interest rates, foreign exchange rates, index of prices or rates and credit rating or credit index. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the reporting date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of the instruments. Negative fair value represents the cost to the Group's counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities and to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualifies as effective hedging instruments are disclosed as 'held as fair value hedges'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time. In cross currency interest rate swaps, the Group exchanges interest payment in two different currencies on a defined principal amount for a fixed period of time and also exchanges defined principal amounts in two different currencies at inception of the contract and re-exchanges principal amounts on maturity.

26 - DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	2015			2014		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	**6,361**	**33,597**	**900,027**	4,643	25,881	667,768
Interest rate swaps (others)	**758**	**689**	**101,718**	-	-	-
Forward foreign exchange contracts	**9,625**	**11,402**	**1,742,618**	6,198	12,454	1,359,531
	16,744	**45,688**	**2,744,363**	10,841	38,335	2,027,299

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2015 is negative KD 27,236 thousand (2014: negative KD 21,238 thousand). Gain on the hedged fixed income financial assets amounted to KD 29,664 thousand (2014: KD 28,344 thousand).

27 - RELATED PARTY TRANSACTIONS

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties			
	2015	2014	2015	2014	2015 KD 000's	2014 KD 000's
Board Members						
Loans (secured)	**4**	4	**11**	9	**259,355**	195,562
Contingent liabilities	**1**	1	**12**	11	**18,889**	12,495
Credit cards	**6**	6	**3**	5	**18**	62
Deposits	**9**	8	**67**	65	**30,073**	25,010
Collateral against credit facilities	**4**	4	**14**	11	**337,443**	293,532
Interest and fee income					**7,629**	6,718
Interest expense					**66**	73
Purchase of equipment and other expenses					**27**	431
Sale of property acquired on settlement of debts					**8,500**	18,000
Gain on sale of property acquired on settlement of debts					**-**	969
Executive Officers						
Loans	**4**	3	**2**	1	**2,609**	185
Contingent liabilities	**5**	5	**-**	-	**2**	2
Credit cards	**12**	11	**1**	-	**56**	30
Deposits	**12**	11	**29**	19	**3,234**	2,056
Interest and fee income					**85**	46
Interest expense					**2**	-
Associates						
Placements					**-**	174,151

Details of compensation to key management personnel are as follows:

	2015	2014
	KD 000's	KD 000's
Salaries and other short term benefits	**8,893**	7,898
Post-employment benefits	**486**	462
Share based compensation	**408**	273
	9,787	8,633

Board members do not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

28 - RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

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

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

28.1 CREDIT RISK

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All significant policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

28 - RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 1 MAXIMUM EXPOSURE TO CREDIT RISK

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	2015		2014	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Loans, advances and Islamic financing to customers	**13,550,966**	**8,758,404**	11,908,708	7,619,398
Contingent liabilities	**3,905,200**	**3,744,182**	2,875,726	2,714,341

Collateral and other credit enhancements

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

28.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2015 is 15% (2014: 16%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2015 Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Others KD 000's	Total KD 000's
Balances and deposits with banks	**2,759,289**	**1,327,326**	**471,153**	**159,492**	**3,219**	**4,720,479**
Central Bank of Kuwait bonds	**803,930**	**-**	**-**	**-**	**-**	**803,930**
Kuwait Government treasury bonds	**380,052**	**-**	**-**	**-**	**-**	**380,052**
Loans, advances and Islamic financing to customers	**12,279,672**	**255,331**	**361,192**	**271,914**	**382,857**	**13,550,966**
Held to maturity investments	**99,318**	**-**	**-**	**20,176**	**-**	**119,494**
Available for sale investments	**1,618,218**	**48,300**	**184,440**	**498,176**	**32,808**	**2,381,942**
Other assets	**109,972**	**2,326**	**6,850**	**1,538**	**5,700**	**126,386**
	18,050,451	**1,633,283**	**1,023,635**	**951,296**	**424,584**	**22,083,249**
Commitments and contingent liabilities (Note 25)	**2,390,801**	**320,765**	**1,057,485**	**880,039**	**11,778**	**4,660,868**
	20,441,252	**1,954,048**	**2,081,120**	**1,831,335**	**436,362**	**26,744,117**

2014 *Geographic region*	*Middle East and North Africa* *KD 000's*	*North America* *KD 000's*	*Europe* *KD 000's*	*Asia* *KD 000's*	*Others* *KD 000's*	*Total* *KD 000's*
Balances and deposits with banks	3,209,614	1,222,675	319,258	210,159	451	4,962,157
Central Bank of Kuwait bonds	534,688	-	-	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	-	-	344,529
Loans, advances and Islamic financing to customers	10,963,327	186,669	306,332	180,808	271,572	11,908,708
Held to maturity investments	100,577	-	-	11,230	-	111,807
Available for sale investments	1,496,334	45,855	164,238	364,404	13,487	2,084,318
Other assets	94,125	1,320	7,014	1,236	621	104,316
	16,743,194	1,456,519	796,842	767,837	286,131	20,050,523
Commitments and contingent liabilities (Note 25)	2,145,448	205,021	499,672	663,172	7,267	3,520,580
	18,888,642	1,661,540	1,296,514	1,431,009	293,398	23,571,103

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2015 ***KD 000's***	*2014* *KD 000's*
Industry sector		
Trading	**2,323,127**	2,197,751
Manufacturing	**1,713,148**	1,231,318
Banks and other financial institutions	**8,861,239**	7,966,606
Construction	**1,515,697**	1,211,222
Real Estate	**2,798,090**	2,448,022
Retail	**4,191,243**	3,676,187
Government	**2,157,018**	1,817,585
Others	**3,184,555**	3,022,412
	26,744,117	23,571,103

28 - RISK MANAGEMENT (continued)

28.1 CREDIT RISK (continued)

28.1. 3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of financial assets for statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired		*Past due*	
	High	*Standard*	*or impaired*	*Total*
2015	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
Balances and short term deposits with banks	**3,293,800**	**-**	**-**	**3,293,800**
Central Bank of Kuwait bonds	**803,930**	**-**	**-**	**803,930**
Kuwait Government treasury bonds	**380,052**	**-**	**-**	**380,052**
Deposits with banks	**1,237,787**	**188,892**	**-**	**1,426,679**
Loans, advances and Islamic financing to customers	**11,936,161**	**1,919,793**	**307,901**	**14,163,855**
Held to maturity investments	**20,176**	**99,318**	**-**	**119,494**
Available for sale investments	**1,658,973**	**722,969**	**-**	**2,381,942**
	19,330,879	**2,930,972**	**307,901**	**22,569,752**
2014				
Balances and short term deposits with banks	2,911,642	-	-	2,911,642
Central Bank of Kuwait bonds	534,688	-	-	534,688
Kuwait Government treasury bonds	344,529	-	-	344,529
Deposits with banks	1,981,059	69,456	-	2,050,515
Loans, advances and Islamic financing to customers	10,445,249	1,728,478	249,579	12,423,306
Held to maturity investments	11,230	100,577	-	111,807
Available for sale investments	1,469,803	614,515	-	2,084,318
	17,698,200	2,513,026	249,579	20,460,805

28.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	Corporate		*Retail*		*Total*	
	Past due and not impaired	*Past due and impaired*	*Past due and not impaired*	*Past due and impaired*	*Past due and not impaired*	*Past due and impaired*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
2015						
Up to 30 days	**41,987**	**2,687**	**35,132**	**-**	**77,119**	**2,687**
31 - 60 days	**8,295**	**-**	**16,043**	**-**	**24,338**	**-**
61 - 90 days	**14,081**	**-**	**2,271**	**-**	**16,352**	**-**
91-180 days	**-**	**9,523**	**-**	**21,582**	**-**	**31,105**
More than 180 days	**-**	**69,862**	**-**	**86,438**	**-**	**156,300**
	64,363	**82,072**	**53,446**	**108,020**	**117,809**	**190,092**
2014						
Up to 30 days	11,519	-	27,524	-	39,043	-
31 - 60 days	925	-	12,468	-	13,393	-
61 - 90 days	8,441	-	2,290	-	10,731	-
91-180 days	-	14,718	-	17,483	-	32,201
More than 180 days	-	84,038	-	70,173	-	154,211
	20,885	98,756	42,282	87,656	63,167	186,412

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2015 was KD 55,563 thousand (2014: KD 59,105 thousand).

28.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

2015	*Up to 3 months KD 000's*	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
Assets				
Cash and deposits with banks	**4,600,880**	**301,100**	**6,070**	**4,908,050**
Central Bank of Kuwait bonds	**553,920**	**250,010**	**-**	**803,930**
Kuwait Government treasury bonds	**55,211**	**212,182**	**112,659**	**380,052**
Loans, advances and Islamic financing to customers	**4,431,115**	**1,987,624**	**7,132,227**	**13,550,966**
Held to maturity investments	**93,900**	**23,441**	**2,153**	**119,494**
Available for sale investments	**327,807**	**556,656**	**1,710,120**	**2,594,583**
Investments carried at fair value through statement of income	**70,257**	**-**	**-**	**70,257**
Investment in associates	**-**	**-**	**92,713**	**92,713**
Land, premises and equipment	**-**	**-**	**226,501**	**226,501**
Goodwill and other intangible assets	**-**	**-**	**677,594**	**677,594**
Other assets	**87,605**	**38,781**	**47,104**	**173,490**
	10,220,695	**3,369,794**	**10,007,141**	**23,597,630**
Liabilities and equity				
Due to banks and other financial institutions	**5,278,742**	**1,621,057**	**406,668**	**7,306,467**
Customer deposits	**10,328,767**	**1,400,124**	**330,312**	**12,059,203**
Certificates of deposit issued	**561,172**	**94,085**	**-**	**655,257**
Subordinated Tier 2 bonds	**-**	**-**	**124,664**	**124,664**
Other liabilities	**200,161**	**-**	**60,754**	**260,915**
Share capital and reserves	**-**	**-**	**2,607,496**	**2,607,496**
Proposed cash dividend	**148,443**	**-**	**-**	**148,443**
Perpetual Tier 1 Capital Securities	**-**	**-**	**210,700**	**210,700**
Non-controlling interests	**-**	**-**	**224,485**	**224,485**
	16,517,285	**3,115,266**	**3,965,079**	**23,597,630**

28 - RISK MANAGEMENT (continued)

28.2 LIQUIDITY RISK (continued)

2014	*Up to 3 months* *KD 000's*	*3 to 12 months* *KD 000's*	*Over 1 year* *KD 000's*	*Total* *KD 000's*
Assets				
Cash and deposits with banks	4,496,912	679,738	5,856	5,182,506
Central Bank of Kuwait bonds	421,054	113,634	-	534,688
Kuwait Government treasury bonds	63,656	149,809	131,064	344,529
Loans, advances and Islamic financing to customers	3,824,418	1,656,749	6,427,541	11,908,708
Held to maturity investments	89,218	14,935	7,654	111,807
Available for sale investments	309,660	376,938	1,628,437	2,315,035
Investments carried at fair value through statement of income	66,851	-	-	66,851
Investment in associates	-	-	119,398	119,398
Land, premises and equipment	-	-	203,414	203,414
Goodwill and other intangible assets	-	-	696,416	696,416
Other assets	71,884	32,432	58,055	162,371
Investment in an associate held for sale	138,408	-	-	138,408
	9,482,061	3,024,235	9,277,835	21,784,131
Liabilities and equity				
Due to banks and other financial institutions	4,505,118	2,012,952	187,647	6,705,717
Customer deposits	9,624,495	1,480,952	154,289	11,259,736
Certificates of deposit issued	621,161	53,904	-	675,065
Other liabilities	214,814	-	58,259	273,073
Share capital and reserves	-	-	2,511,931	2,511,931
Proposed cash dividend	141,340	-	-	141,340
Non-controlling interests	-	-	217,269	217,269
	15,106,928	3,547,808	3,129,395	21,784,131

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

	Up to 3 months	***3 to 12 months***	***Over 1 year***	***Total***
	KD 000's	***KD 000's***	***KD 000's***	***KD 000's***
2015				
Financial Liabilities				
Due to banks and other financial institutions	**5,285,641**	**1,632,290**	**418,182**	**7,336,113**
Customer deposits	**10,341,087**	**1,426,765**	**365,512**	**12,133,364**
Certificates of deposit issued	**561,635**	**94,224**	**-**	**655,859**
Subordinated Tier 2 bonds	**-**	**5,860**	**177,704**	**183,564**
	16,188,363	**3,159,139**	**961,398**	**20,308,900**
Contingent liabilities and commitments				
Contingent liabilities	**802,261**	**991,311**	**2,111,628**	**3,905,200**
Irrevocable commitments	**119,367**	**227,979**	**408,322**	**755,668**
	921,628	**1,219,290**	**2,519,950**	**4,660,868**
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	**1,452,136**	**284,670**	**90,242**	**1,827,048**
Contractual amounts receivable	**1,450,558**	**285,134**	**97,017**	**1,832,709**

	Up to 3 months	*3 to 12 months*	*Over 1 year*	*Total*
	KD 000's	*KD 000's*	*KD 000's*	*KD 000's*
2014				
Financial Liabilities				
Due to banks and other financial institutions	4,511,803	2,029,861	192,433	6,734,097
Customer deposits	9,633,194	1,502,308	169,725	11,305,227
Certificates of deposit issued	621,381	53,930	-	675,311
	14,766,378	3,586,099	362,158	18,714,635
Contingent liabilities and commitments				
Contingent liabilities	733,514	862,203	1,280,009	2,875,726
Irrevocable commitments	100,800	174,884	369,170	644,854
	834,314	1,037,087	1,649,179	3,520,580
Derivative financial instruments settled on a gross basis				
Contractual amounts payable	1,267,114	88,945	56,220	1,412,279
Contractual amounts receivable	1,270,636	88,817	57,264	1,416,717

28 - RISK MANAGEMENT (continued)

28.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

28.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the re-pricing gaps of its assets and liabilities are carefully monitored and controlled through limits pre-established by the Board of Directors and adjusted where necessary, to reflect the changing market conditions.

Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity on equity is the impact arising from changes in interest rate on fair value of available for sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

		2015		2014	
		Effect on profit	***Effect on equity***	*Effect on profit*	*Effect on equity*
		KD 000's	***KD 000's***	*KD 000's*	*KD 000's*
Currency	**Movement in Basis points**				
KWD	+25	**4,546**	**-**	5,904	-
USD	+25	**2,064**	**(859)**	199	(1,783)
EUR	+25	**164**	**(8)**	(205)	(13)
GBP	+25	**11**	**-**	(66)	-
EGP	+25	**623**	**(882)**	403	(614)

28.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. In general assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

		2015		2014	
Currency	***% Change in currency rate***	***Effect on profit KD 000's***	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
USD	+5	**(174)**	**730**	393	620
GBP	+5	**58**	**-**	(202)	-
EUR	+5	**165**	**-**	244	-
EGP	+5	**56**	**9,814**	205	10,517
TRY	+5	**-**	**252**	-	1,215
IDR	+5	**-**	**2,300**	-	2,607
Other	+5	**5**	**4,923**	182	4,784

28.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

		2015		2014	
Market indices	***% Change in equity price***	***Effect on profit KD 000's***	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Kuwait stock exchange	+5	**-**	**944**	-	930
Doha securities market	+5	**-**	**98**	-	271
Saudi stock exchange	+5	**-**	**468**	-	546

28.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

29 - CAPITAL

A key objective of the Group is to maximise shareholders' value with optimal levels of risk, whilst maintaining a strong capital base to support the development of its business and comply with the externally-imposed capital requirements.

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait (CBK) as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (Basel III) and the Leverage regulations as stipulated in CBK Circular number 2/BS/ 342/2014 dated 21 October 2014 under the Basel Committee framework are included under the 'Risk Management' section of the Annual Report.

Capital adequacy, financial leverage and the use of various levels of regulatory capital are monitored regularly by the Group's management and are, also, governed by guidelines of Basel Committee on Banking Supervision as adopted by the CBK.

The Group's regulatory capital and capital adequacy ratios (Basel III) are shown below:

	2015	*2014*
	KD 000's	*KD 000's*
Risk Weighted Assets	**14,842,129**	13,464,676
Capital required	**1,855,266**	1,615,761
Capital available		
Common Equity Tier 1 capital	**1,965,705**	1,782,908
Additional Tier 1 capital	**221,245**	8,893
Tier 1 capital	**2,186,950**	1,791,801
Tier 2 capital	**310,531**	163,176
Total capital	**2,497,481**	1,954,977
Common Equity Tier 1 capital adequacy ratio	**13.2%**	13.2%
Tier 1 capital adequacy ratio	**14.7%**	13.3%
Total capital adequacy ratio	**16.8%**	14.5%

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary. For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

The Group's financial leverage ratio is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2015	*2014*
	KD 000's	*KD 000's*
Tier 1 capital	**2,186,950**	1,791,801
Total exposures	**25,636,063**	23,064,834
Leverage ratio	**8.5%**	7.8%

30 - FUNDS UNDER MANAGEMENT

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2015, funds under management were KD 3,368 million (2014: KD 3,198 million).

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF NATIONAL BANK OF KUWAIT S.A.K.P.

We have audited the accompanying consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and its executive regulation, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/BS/342/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended, and its executive regulation, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2015 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI	**BADER A. AL-WAZZAN**
LICENCE NO. 68 A	LICENCE NO. 62 A
EY	DELOITTE & TOUCHE
(AL-AIBAN, AL-OSAIMI & PARTNERS)	(AL WAZZAN & CO.)

10 January 2016
Kuwait

Group Directory

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13001 Kuwait
Tel: +965 2242 2011
Fax: +965 2243 1888

Consumer Banking Group

Retail Banking
Ext: 3034
Fax: 2241 6738

Domestic Branches
Ext: 2592
Fax: 2246 7929

Alternative Channels
Ext: 3393
Fax: 2241 6738

Direct Sales
Ext: 5003
Fax: 2259 5522

Consumer Lending
Ext: 3112
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: 2259 5640

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: 2224 6685

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

Advertising
Ext: 2665
Fax: 2259 5805

Group Internal Audit
Ext: 5400
Fax: 2243 3835

Local Branches

Head Office
Tel: 2242 2011
Fax: 2259 5800

Ahmadi
Tel: 1 801 801
Fax: 2398 5643

Ahmed Al-Jaber
Tel: 1 801 801
Fax: 2259 3852

Airport
Tel: 1 801 801
Fax: 2259 3870

Ali Sabah Al-Salem
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Al Tadhamoun (Farwaniya)
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Andalus
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Ardiya
Tel: 1 801 801
Fax: 2488 3927

Arraya 2
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Fax: 2224 6605

Avenues
Tel: 1 801 801
Fax: 2259 3857

Bayan
Tel: 1 801 801
Fax: 2538 9382

Camp Arifjan
Tel: 1 801801
Fax: 2259 3965

Cinema Al-Salmiya
Tel: 1 801 801
Fax: 2224 6606

Dahyat Abdullah Al-Salem
Tel: 1 801 801
Fax: 2259 3755

Daiyah
Tel: 1 801 801
Fax: 2256 3820

Dasma
Tel: 1 801 801
Fax: 2252 6485

Doha
Tel: 1 801 801
Fax: 2487 4696

Fahad Al-Salem
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Fax: 2241 7642

Fahaheel
Tel: 1 801 801
Fax: 2392 4447

Fahaheel Al Sahely
Tel: 1 801 801
Fax: 2259 3839

Faiha
Tel: 1 801 801
Fax: 2254 6741

Farwaniya
Tel: 1 801 801
Fax: 2474 0013

Fintas
Tel: 1 801 801
Fax: 2390 3552

Ghazali
Tel: 1 801 801
Fax: 2483 4752

Grand Avenues
Tel: 1 801 801
Fax: 2259 3985

Hadiya
Tel: 1 801 801
Fax: 2394 3572

Hawalli
Tel: 1 801 801
Fax: 2261 2407

Kheitan
Tel: 1 801 801
Fax: 2472 4084

Jabriya
Tel: 1 801 801
Fax: 2533 1944

Jahra
Tel: 1 801 801
Fax: 2455 3121

Jahra Commercial Branch
Tel: 1 801 801
Fax: 2456 3259

Jleeb Al-Shuyoukh
Tel: 1 801 801
Fax: 2431 7449

Kaifan
Tel: 1 801 801
Fax: 2483 9016

Kuwait National Petroleum Company
Tel: 1 801 801
Fax: 2398 9123

Kuwait Oil Company
Tel: 1 801 801
Fax: 2259 3935

Kuwait Petroleum Corporation
Tel: 1 801 801
Fax: 2224 6764

Ministries Complex
Tel: 1 801 801
Fax: 2245 2721

Mishref
Tel: 1 801 801
Fax: 2538 9832

MTC Headquarters
Tel: 1 801 801
Fax: 2481 3699

Mubarak Al-Kabeer
Tel: 1 801 801
Fax: 2541 6376

Nuzha
Tel: 1 801 801
Fax: 2255 0858

Othman
Tel: 1 801 801
Fax: 2265 6425

Qadisiya
Tel: 1 801 801
Fax: 2254 6738

Qurain
Tel: 1 801 801
Fax: 2544 0772

Qurtuba
Tel: 1 801 801
Fax: 2534 4780

Ras Al-Salmiya
Tel: 1 801 801
Fax: 2224 6629

Rawdha
Tel: 1 801 801
Fax: 2252 2358

Riqqa
Tel: 1 801 801
Fax: 2394 4147

Rumaithiya
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Fax: 2564 0980

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Fax: 2454 4127

Sabah Al-Nasser
Tel: 1 801 801
Fax: 2551 7215

Sabah Al-Salem
Tel: 1 801 801
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Sabahiya
Tel: 1 801 801
Fax: 2361 7013

Sabhan
Tel: 1 801 801
Fax: 2474 0074

Salmiya
Tel: 1 801 801
Fax: 2574 3681

Salwa
Tel: 1 801 801
Fax: 2566 8731

Shamiah
Tel: 1 801 801
Fax: 2484 6254

Sharq
Tel: 1 801 801
Fax: 2243 8348

Shuwaikh
Tel: 1 801 801
Fax: 2484 4126

Shuwaikh Medical
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Fax: 2492 0206

Social Security (PIFSS)
Tel: 1 801 801
Fax: 2247 2305

Sour Street
Tel: 1 801 801
Fax: 2243 0776

South Surra
Tel: 1 801 801
Fax: 2224 6867

Surra
Tel: 1 801 801
Fax: 2535 9686

Watya
Tel: 1 801 801
Fax: 2259 3889

Yarmouk
Tel: 1 801 801
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National Bank of Kuwait SAK
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Al-Khalidiah Distric
Al-Mukmal Tower
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