IMPORTANT NOTICE

THIS PROSPECTUS MAY ONLY BE DISTRIBUTED TO PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached prospectus (the *document*) whether received by e-mail, accessed from an internet page or otherwise received as a result of electronic communication, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from any of the Issuer, the Bank and/or the Managers (each as defined below) as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended only for you and you agree you will not reproduce or publish this electronic transmission or forward the attached document to any other person.

Restrictions: UNDER NO CIRCUMSTANCES SHALL THE ATTACHED DOCUMENT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THE SECURITIES IN THE UNITED STATES OR ANY OTHER JURISDICTION IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED DIRECTLY OR INDIRECTLY WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (**REGULATION S**)) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE AND LOCAL SECURITIES LAWS.

THE ATTACHED DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON WITHOUT THE PRIOR WRITTEN CONSENT OF THE MANAGERS AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. DISTRIBUTION OR REPRODUCTION OF THE ATTACHED DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE SECURITIES LAWS OF OTHER JURISDICTIONS.

WITHIN THE UNITED KINGDOM, THIS DOCUMENT IS DIRECTED ONLY AT (A) PERSONS WHO HAVE PROFESSIONAL EXPERIENCE IN MATTERS RELATING TO INVESTMENTS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 (THE **FP ORDER**), OR (B) WHO ARE PERSONS FALLING WITHIN ARTICLE 49(2)(a) TO (d) OF THE FP ORDER, OR (C) TO WHOM IT MAY OTHERWISE LAWFULLY BE DISTRIBUTED IN ACCORDANCE WITH THE FP ORDER (ALL SUCH PERSONS IN (A), (B) AND (C) ABOVE TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THIS DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. FOR A MORE COMPLETE DESCRIPTION OF RESTRICTIONS ON OFFERS AND SALES, SEE "*SUBSCRIPTION AND SALE*".

CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the attached document or make an investment decision with respect to the securities described herein, (1) each prospective investor in respect of the securities being offered outside of the United States in an offshore transaction pursuant to Regulation S must be a person other than a U.S. Person and (2) each prospective investor in respect of the securities being offered in the United Kingdom must be a Relevant Person. By accepting this e-mail and accessing, reading or making any other use of the attached document, you shall be deemed to have represented to Citigroup Global Markets Limited, HSBC Bank plc, National Bank of Abu Dhabi PJSC, Standard Chartered Bank and Watani Investment Company KSCC (together, the **Joint Lead Managers**) and Union National Bank PJSC (the **Co-Lead Manager** and, together with the Joint Lead Managers, the **Managers**) and each of National Bank of Kuwait S.A.K.P. (the **Bank**) and NBK Tier 1 Financing Limited (the **Issuer**) (1) you have understood and agree to the terms set out herein, (2) you are (or the person you represent is) a person other than a U.S. Person, and that the electronic mail (or e-mail) address to which, pursuant to your request, the attached document has been delivered by electronic transmission is not located in the United States, its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands, (3) in respect of the securities being offered in the United Kingdom, you are (or the person you represent is) a Relevant Person, (4) you consent to delivery by electronic transmission, (5) you will not transmit the attached document (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Managers and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities described herein.

Neither the Managers nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this document or for any statement made therein, in connection with the Bank, the Issuer or the offer. The Managers and their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty, express or implied, is made by any of the Managers or their respective affiliates as to the accuracy, completeness, verification or sufficiency of the information set out in this document.

The Managers are acting exclusively for the Bank and the Issuer and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Bank and the Issuer for providing the protections afforded to its clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Bank and the Issuer in such jurisdiction.

Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the attached document who intend to subscribe for or purchase any securities to be issued are reminded that any subscription or purchase may only be made on the basis of the information contained in the final version of the attached document.

This document has been made available to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Bank, the Issuer, the Managers nor any person who controls or is a director, officer, employee or agent of the Bank, the Issuer, the Managers nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version. By accessing this document, you consent to receiving it in electronic form. A hard copy of the document will be made available to you only upon request to the Managers.

You are reminded that the attached document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person and in particular to any U.S. Person or to any U.S. address. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

If you received this document by e-mail, you should not reply by e-mail to this communication. Any reply e-mail communications, including those you generate by using the "Reply" function on the e-mail software, will be ignored or rejected. Your receipt of the electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Restrictions on marketing and sales to retail investors

The Capital Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Capital Securities to retail investors.

By purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer, the Bank and each of the Managers that:

(a) it will not sell or offer the Capital Securities to retail clients in the European Economic Area (the **EEA**) (as defined in article 4(1)(12) of the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**)) or do anything (including the distribution of this Prospectus) that would or might result in the buying of the Capital Securities or the holding of a beneficial interest in the Capital Securities by a retail client in the EEA, other than in relation to any sale or offer to sell Capital Securities to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Capital Securities and is able to bear the potential losses involved in an investment in the Capital Securities and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(b) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Capital Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Capital Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

PROSPECTUS DATED 7 APRIL 2015

NBK Tier 1 Financing Limited

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

unconditionally and irrevocably guaranteed by

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

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

U.S.$700,000,000 Perpetual Tier 1 Capital Securities

The U.S.$700,000,000 Perpetual Tier 1 Capital Securities (the **Capital Securities**) shall be issued by NBK Tier 1 Financing Limited (the **Issuer**) on 9 April 2015 (the **Issue Date**). The payments of all amounts due in respect of the Capital Securities will be irrevocably guaranteed by National Bank of Kuwait S.A.K.P. (the **Bank** and, in its capacity as the guarantor, the **Guarantor**) under a Subordinated Guarantee dated the Issue Date (the **Subordinated Guarantee**). The obligations of the Guarantor under the Subordinated Guarantee will be subordinated to all Senior Obligations (as defined herein) of the Guarantor, as more particularly described in Condition 4.2 (*Status of the Guarantee and Subordination*).

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

Interest Payment Amounts (as defined in the Conditions) shall be payable subject to and in accordance with the terms and conditions set out in the "*Terms and Conditions of the Capital Securities*" (the **Conditions**) on the outstanding nominal amount of the Capital Securities from (and including) the Issue Date to (but excluding) 9 April 2021 (the **First Call Date**) at a rate of 5.750 per cent. per annum. If the Capital Securities are not redeemed or purchased and cancelled in accordance with the Conditions on or prior to the First Call Date, Interest Payment Amounts shall be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every six years thereafter, equal to the Reset Interest Rate (as defined in the Conditions). Interest Payment Amounts will (subject to the requirements in relation to payments of interest in accordance with Condition 5.6 (*Non-Payment Event*) and the right of the Issuer to cancel payments of interest in accordance with Condition 5.7 (*Non-Payment Election*)) be payable semi-annually in arrear on 9 April and 9 October in each year, commencing on 9 October 2015 (each, an **Interest Payment Date**). Payments on the Capital Securities will be made without deduction for, or on account of, taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) (the **Taxes**) as described in Condition 9 (*Taxation*).

The Issuer and the Guarantor may elect, and in certain circumstances shall be required, not to make any distribution falling due on the Capital Securities. Any Interest Payment Amounts not paid as aforesaid will not accumulate and the holder of the Capital Security shall not have any claim in respect thereof.

The Capital Securities are undated and have no final maturity. Unless the Capital Securities have previously been redeemed or purchased and cancelled as provided in the Conditions, the Capital Securities may, at the option of the Issuer and the Guarantor, subject to the prior approval of the Central Bank of the State of Kuwait (the **Financial Regulator**, which shall include any successor entity having primary bank supervisory authority with respect to the Guarantor in the State of Kuwait), be redeemed at par (in whole but not in part) on the First Call Date or any Interest Payment Date thereafter. In addition, the Capital Securities may, in the event of a Tax Event or Capital Event (each as defined in the Conditions), be redeemed or varied at any time (in whole but not in part), subject to the conditions described in Condition 7.1 (*No Fixed Redemption Date and Conditions for Redemption and Variation*).

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

The Capital Securities may only be offered, sold or transferred in registered form in minimum nominal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Delivery of the Capital Securities in book-entry form will be made on the Issue Date. The Capital Securities will be represented by interests in a global certificate in registered form (the **Global Certificate**) deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depositary (the **Common Depositary**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Certificates (as defined in the Conditions) evidencing holdings of interests in the Capital Securities will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**) as competent authority under Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the **Prospectus Directive**). The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Capital Securities which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc for the Capital Securities to be admitted to the official list (the **Official List**) and to trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC) (**MiFID**). References in this Prospectus to Capital Securities being listed (and all related references) shall mean that such Capital Securities have been admitted to the Official List and have been admitted to trading on the Main Securities Market.

The Bank has a long term rating of A+ and a short term rating of A-1 from Standard & Poor's Credit Market Services Europe Limited (**S&P**); a long term rating of Aa3 and a short term rating of P-1 by Moody's Investors Service Cyprus Ltd. (**Moody's**); and a long term rating of AA- and a short term rating of F1+ by Fitch Ratings Ltd. (**Fitch**). The Capital Securities are expected to be assigned a rating of Baa3 by Moody's.

Each of S&P, Moody's and Fitch is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such each of S&P, Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

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

Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" on page iii of this Prospectus for information regarding certain restrictions on marketing and sales to retail investors.

Neither the Capital Securities nor the Subordinated Guarantee have been, nor will be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Capital Securities may be offered or sold solely to persons who are not U.S. Persons outside the United States in reliance on Regulation S. Each purchaser of the Capital Securities is hereby notified that the offer and sale of Capital Securities to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Global Coordinators

HSBC **Standard Chartered Bank**

Joint Lead Managers

Citigroup **HSBC** **National Bank of Abu Dhabi PJSC**

Standard Chartered Bank **Watani Investment Company KSCC**

Co-Lead Manager

Union National Bank

The date of this Prospectus is 7 April 2015.

IMPORTANT NOTICE

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

Each of the Issuer and the Bank accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of each of the Issuer and the Bank (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information contained in "*Risk Factors*", "*Description of the Group*" and "*Overview of Kuwait*" (as indicated therein) has been extracted from the following independent, third party sources: The International Monetary Fund (the **IMF**), the Organisation of Petroleum Exporting Countries (**OPEC**), the Sovereign Wealth Fund Institute, the U.S. Central Intelligence Agency (the **CIA**), the Central Bank of the State of Kuwait (the **CBK**), the Kuwait Public Authority for Civil Information, the Kuwait Central Statistical Bureau (the **CSB**) and, in each case, the relevant source of such information is specified where it appears under those headings.

Each of the Issuer and the Bank confirms that all third party information contained in this Prospectus has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by the relevant third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Citigroup Global Markets Limited, HSBC Bank plc, National Bank of Abu Dhabi PJSC, Standard Chartered Bank and Watani Investment Company KSCC (together, the **Joint Lead Managers**) and Union National Bank PJSC (the **Co-Lead Manager** and, together with the Joint Lead Managers, the **Managers**) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer and the Bank in connection with the issuance of the Capital Securities. No Manager accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer and the Bank in connection with the issuance of the Capital Securities.

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

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

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction.

The distribution of this Prospectus and the offer or sale of Capital Securities may be restricted by law in certain jurisdictions. The Issuer, the Bank and the Managers do not represent that this Prospectus may be lawfully distributed, or that any Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Bank or the Managers which is intended to permit a public offering of any Capital Securities or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of any Capital Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of any Capital Securities in the United States, the United Kingdom, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait (**Kuwait**), the Kingdom of Saudi Arabia, the Kingdom of Bahrain (**Bahrain**) and the State of Qatar (see "*Subscription and Sale*").

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

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained in this Prospectus;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact the Capital Securities will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including Capital Securities with principal or distributions payable in one or more currencies, or where the currency for payments of principal or distributions is different from the potential investor's currency;

(d) understands thoroughly the terms of the Capital Securities and is familiar with the behaviour of any relevant indices and financial markets; and

(e) is able to evaluate possible scenarios for economic, distribution rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

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

STABILISATION

In connection with the issue of the Capital Securities, HSBC Bank plc (the **Stabilisation Manager**) (or persons acting on behalf of the Stabilisation Manager) may over-allot Capital Securities or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the Capital Securities is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

Restrictions on marketing and sales to retail investors

The Capital Securities are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as, or with features similar to those of, the Capital Securities to retail investors.

By purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, each prospective investor represents, warrants, agrees with and undertakes to the Issuer, the Bank and each of the Managers that:

(a) it will not sell or offer the Capital Securities to retail clients in the European Economic Area (the **EEA**) (as defined in article 4(1)(12) of the Markets in Financial Instruments Directive (2004/39/EC) (**MiFID**)) or do anything (including the distribution of this Prospectus) that would or might result in the buying of the Capital Securities or the holding of a beneficial interest in the Capital Securities by a retail client in the EEA, other than in relation to any sale or offer to sell Capital Securities to a retail client in any EEA member state, where (i) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Capital Securities and is able to bear the potential losses involved in an investment in the Capital Securities and (ii) it has at all times acted in relation to such sale or offer in compliance with MiFID to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and

(b) it has complied and will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Capital Securities, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Capital Securities by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Capital Securities from the Bank and/or the Managers, the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

NOTICE TO THE RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the **Capital Market Authority**).

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the Capital Securities should conduct their own due diligence on the accuracy of the information relating to the Capital Securities. If a prospective purchaser does not understand the contents of this Prospectus they should consult an authorised financial adviser.

NOTICE TO THE RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in Bahrain, securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing account holders and accredited investors as defined by the Central Bank of Bahrain (the *CBB*) in Bahrain where such investors make a minimum investment of at least U.S.$100,000, or any equivalent amount in another currency or such other amount as the CBB may determine. This offer does not constitute an offer of securities in Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no securities may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase securities, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

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

NOTICE TO RESIDENTS OF THE STATE OF QATAR

This Prospectus does not and is not intended to constitute an offer, sale or delivery of bonds or other debt financing instruments under the laws of the State of Qatar. The Capital Securities have not been and will not be authorised by the Qatar Financial Markets Authority, the Qatar Financial Centre Regulatory Authority or the Qatar Central Bank in accordance with their regulations or any other regulations in the State of Qatar. The Capital Securities are not and will not be traded on the Qatar Exchange.

NOTICE TO RESIDENTS OF KUWAIT

All necessary approvals from the Kuwait Capital Markets Authority (the **CMA**) and the Central Bank of Kuwait pursuant to Law No. 7 of 2010, its Executive Regulations (as amended) and the various Resolutions, Instructions and Announcements issued pursuant thereto, or in connection therewith (**CMA Legislation**), have been obtained in relation to the issue, offer, marketing of, and sale of, the Capital Securities in the State of Kuwait. The Prospectus has been prepared in accordance with CMA Legislation and has been approved by the CMA. With regard to the contents of the Prospectus, it is recommended that before making any investment decision prospective investors consult a party licensed by the CMA, pursuant to CMA Legislation, to provide advice about any investment in the Capital Securities.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Some statements in this Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning the Bank plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this Prospectus, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "*Risk Factors*", "*Description of the Guarantor*" and other sections of this Prospectus. The Issuer and the Bank have based these forward looking statements on its current view with respect to future events and financial performance. Although the Issuer and the Bank believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Issuer or the Bank has otherwise identified in this Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or inaccurate, events relating to the Bank and the Bank's actual results may be materially different from those expected, estimated or predicted.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Any forward looking statements contained in this Prospectus speak only as at the date of this Prospectus.

Without prejudice to any requirements under applicable laws and regulations (including, without limitation, the Central Bank of Ireland's and Irish Stock Exchange plc's rules and regulations regarding ongoing disclosure obligations), each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The financial statements relating to the Bank and its subsidiaries (collectively, the **Group**) included in this Prospectus are for the years ended 31 December 2014 (the **2014 Financial Statements**) and 31 December 2013 (the **2013 Financial Statements** and, together with the 2014 Financial Statements, the **Financial Statements**), each prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**), as adopted by Kuwait for financial services institutions regulated by the CBK. These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (**IAS**) 39, '*Financial Instruments: Recognition and Measurement*', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

The Financial Statements have been audited in accordance with International Standards on Auditing by Ernst & Young Al Alban, Al Osaimi & Partners (**Ernst & Young Kuwait**) and Deloitte & Touche, Al Wazzan & Co. (**Deloitte Kuwait**), without qualification as stated in their reports appearing herein.

There are certain minor reclassification differences made in the 2014 Financial Statements which affect the comparable financial information for 2013. As a result, all 2013 financial information in this Prospectus has been derived from the 2014 Financial Statements. In addition, due to the consolidation of Boubyan Bank K.S.C.P. (**Boubyan Bank**) with effect from 31 July 2012, the equivalent information for 2012 included in note 3 to the 2013 Financial Statements cannot meaningfully be compared. As a result, no segmental financial information for 2012 has been included in "*Financial review—Results of operations—Segmental analysis*". All other 2012 financial information in this Prospectus has been derived from the 2013 Financial Statements.

The Group's financial year ends on 31 December and references in this Prospectus to **2014**, **2013** and **2012** are to the 12 month period ending on 31 December in each such year.

Certain non-IFRS financial information

This Prospectus includes references to capital, leverage and certain other ratios. Although these ratios are not IFRS measures, the Group believes that the capital and leverage ratios in particular are important to understanding its capital and leverage position, particularly in light of current or planned future regulatory requirements to maintain these ratios above prescribed minimum levels. The Group's interpretation of any future planned ratios and the basis of its calculation of these ratios may be different from those of other financial institutions.

PRESENTATION OF OTHER INFORMATION

Rounding

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. For the purposes of calculating certain figures and percentages, the underlying numbers used have been extracted from the relevant financial statements rather than the rounded numbers contained in this Prospectus. Accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Currencies

Unless otherwise indicated, in this Prospectus, all references to:

- **KD** and **dinar** are to the lawful currency of Kuwait; and
- **U.S. dollars** and **U.S.$** are to the lawful currency of the United States.

Unless otherwise indicated, the financial information contained in this Prospectus has been expressed in dinar. The Group's functional currency is the dinar and the Group prepares its financial statements in dinar.

Third party and market share data

There is no independently determined financial services industry data available in Kuwait. As a result, any Group market share data included in this Prospectus represents the Group's own estimates of its market shares based on the financial statements published by Kuwaiti banking groups and, where available, industry data, such as that produced by the CBK. All such market share information is referred herein to as having been estimated and potential investors should note that the data so derived includes significant assets and liabilities outside Kuwait and excludes any Kuwaiti assets and liabilities of non-Kuwaiti banking groups. As a result, it simply represents an approximation of the Group's actual market shares. Nevertheless, the Group believes that its estimates of market share are helpful as they give prospective investors a better understanding of the industry in which the Group operates as well as its position within that industry. Although all such estimations have been made in good faith based on the information available and the Group's knowledge of the market within which it operates, the Bank cannot guarantee that a third party expert using different methods would reach the same conclusions.

Statistical information relating to Kuwait included in this Prospectus has been derived from official public sources, including OPEC, the IMF, the Sovereign Wealth Fund Institute, the CIA, the Kuwait Public Authority for Civil Information, the CBK and the CSB. All such statistical information may differ from that stated in other sources for a variety of reasons, including the fact that the underlying assumptions and methodology (including definitions and cut-off times) may vary from source to source. This data may subsequently be revised as new data becomes available and any such revised data will not be circulated by the Group to investors who have purchased the Capital Securities.

The statistical information in this Prospectus, including in relation to Gross Domestic Product (**GDP**), balance of payments, revenues and expenditures, and indebtedness of the Kuwaiti government, have been obtained from public sources identified in this Prospectus. All statistical information provided in this Prospectus, and the component data on which it is based, may not have been compiled in the same manner as data provided by, and may be different from statistics published by, other sources, reflecting. Accordingly, the statistical data contained in this Prospectus should be treated with caution by prospective investors.

Where information has not been independently sourced, it is the Group's own information.

No incorporation of website information

The Bank's website is www.nbk.com. The information on this website or any other website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus, and investors should not rely on it.

Definitions

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

- references to **GCC** are to the Gulf Co-operation Council;
- references to **Kuwait** are to the State of Kuwait;
- references to a **Member State** are references to a Member State of the European Economic Area;
- references to the **MENA region** are to the Middle East and North Africa region;
- references to **OPEC** are to the Organisation of the Petroleum Exporting Countries; and
- references to **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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RISK FACTORS

Each of the Issuer and the Bank believes that the following factors may affect its ability to fulfil its obligations under the Capital Securities or under the Subordinated Guarantee, respectively. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Bank is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Capital Securities are also described below.

Each of the Issuer and the Bank believes that the factors described below represent the principal risks inherent in investing in the Capital Securities, but the inability of either the Issuer or the Bank to pay interest, principal or other amounts on or in connection with any Capital Securities or to pay any amount in respect of the Subordinated Guarantee, respectively, may occur for other reasons and the Issuer and the Bank make no representation that the statements below regarding the risks of holding any Capital Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Capital Securities" shall have the same meanings in this section.

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

The Issuer has a limited operating history and no material assets

The Issuer is a special purpose company with limited liability, incorporated under the laws of the Dubai International Financial Centre on 15 March 2015 and, accordingly, only has a limited operating history. All proceeds from the issue of the Capital Securities will be lent by the Issuer to the Guarantor pursuant to the terms of the On-Loan Agreement (as defined in the Conditions). Payments of principal and interest under the Loan (as defined in the Conditions) by the Guarantor to the Issuer will fund the Issuer's payment obligations under the Capital Securities. The Guarantor's obligations under the On-Loan Agreement are subordinated in a manner equivalent to the subordination of its obligations under the Subordinated Guarantee, as described in Condition 10 (*On-Loan Agreement*) and under the section entitled "*Use of Proceeds*".

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

FACTORS THAT MAY AFFECT THE BANK'S ABILITY, IN ITS CAPACITY AS GUARANTOR, TO FULFIL ITS OBLIGATIONS UNDER THE CAPITAL SECURITIES AND/OR THE SUBORDINATED GUARANTEE

The Group's business, financial condition, results of operations and prospects are affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact the Group

There has been significant volatility and disruption in the global capital and credit markets since the onset of the global financial crisis in late 2007. At times since then, there has also been a material reduction in the availability of financing, both for financial institutions and their customers. As a result, many financial institutions have been compelled to rely on central banks and governments to provide liquidity and, in some cases, additional capital. Governments around the world, including in Kuwait and other countries in the Middle East and North Africa region (the **MENA region**), have taken actions intended to stabilise financial markets and prevent the failure of financial institutions. See "*Banking industry and regulation in Kuwait*". Despite such measures, international capital and credit markets have continued to experience volatility.

The Group's business and results of operations were adversely affected by these conditions and the impact they had in Kuwait and other countries in the MENA region. In particular, countries in the MENA region experienced significant declines in real estate prices and in stock exchange indices and these factors adversely affected companies engaged in the real estate sector (including developers, construction companies and others) and investment companies. Reflecting a lack of diversification in the economy, these companies formed a significant part of Kuwaiti banks' borrowers and, as a result of the difficulties they experienced, Kuwaiti banks, including the Group, significantly increased their provisions in 2008 and 2009 compared to prior years, which in turn adversely affected their results of operations. In the Group's case, its operating profit before tax in 2008 fell by KD 18.6 million, or 6.5 per cent., driven by increased specific and general provisions for credit losses and impairment losses for investment securities. In 2009, reflecting continuing challenging market conditions, its operating income was substantially flat and although its operating profit before tax increased by KD 14.7 million, or 5.5 per cent., the increase was still constrained by high provisions and impairment losses, although these were lower than in 2008.

If comparable market disruptions and levels of volatility recur, the Group may experience reductions in business activity, increased funding costs and funding pressures, decreased asset values, credit losses and impairment charges, and lower profitability and cash flows. The Group's business and financial performance may also be adversely affected by future recovery rates on assets, particularly as the historical assumptions underlying asset recovery rates may prove to be inaccurate.

The Group is exposed to volatility in international oil prices and the recent significant fall in these prices could materially adversely affect the Group's results of operations

The Group's operations are focused in Kuwait and the MENA region. In 2014, 76.7 per cent. of the Group's operating income was derived from its operations in Kuwait and 80.1 per cent. of its maximum exposure to credit risk (including contingent liabilities) was concentrated in the MENA region, principally in Kuwait. Kuwait's economy and the economies of a number of other countries in the MENA region are dependent on oil and gas and related industries, as well as the prices and production quantities of these commodities. Oil prices have, however, been volatile in recent years, which has impacted economic growth in Kuwait. For example, following the significant decline in international oil prices in the second half of 2008 and comparatively very low prices for most of 2009, Kuwait's real GDP contracted by 7.1 per cent. in 2009 and by 2.4 per cent. in 2010, according to CBK data. Since the middle of 2014, international oil prices have fallen significantly, with the monthly average price of the OPEC reference basket falling from U.S.$105.61 in July 2014 to a low of U.S.$44.38 in January 2015. On 18 March 2015, the OPEC daily reference basket price was U.S.$49.17. This deterioration in pricing may have a material adverse effect on Kuwait's economy in 2014 and, potentially, 2015, which could materially adversely affect many of the Group's borrowers and contractual counterparties. This, in turn, would adversely affect the Group's business, financial condition, results of operations and prospects, in particular through increased provisions for credit losses and reduced demand for loans and other banking services. See "*—The Group's customer loan portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" below.

The Group's business may be impacted by ongoing unrest in the Middle East

Many of the Group's customers and a significant part of its business are based in the MENA region. The Group intends to continue to focus on growing its business in the MENA region (including, importantly, the GCC) in the near future. Since the beginning of 2011, there has been political unrest in a range of countries in or proximate to the MENA region, including Syria, Iraq, Egypt, Turkey, Bahrain, Algeria, Libya, Iran, Lebanon, Jordan, Tunisia and Yemen. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and civil war, has led to the collapse of political regimes in Tunisia, Egypt and Libya, civil war in Syria and armed insurrection in Iraq and has given rise to significantly increased political uncertainty across the region. This situation has caused significant disruption to the economies of affected countries and has had a destabilising effect on oil and gas prices.

A significant proportion of the Group's customers are located in the MENA region. Wars, acts of terrorism and uncertain political or economic prospects or instability in Kuwait or the wider MENA region may adversely impact regional financial markets and the Group's business. Renewed protests in the MENA region, including Kuwait, could lead to significant political uncertainties in a number of countries. Financial market and political uncertainty in the MENA region could decrease the Group's customer deposits or its customers' demand for loans or other products offered by the Group. Continued instability in the MENA region, and in particular in countries such as Egypt, Iraq, Lebanon and Turkey where the Group has a presence, could impact the Group's MENA-based operations and investments and could materially impact the financial prospects and conditions of its MENA-based customers and, consequently, the Group' business. Such instability could also negatively affect the value of its investments in affected countries.

The Group is exposed to the credit risk of borrowers and anticipated future growth in, or deterioration in the quality of, the Group's loan portfolio could result in an increase in its credit risk profile

Risks arising from adverse changes in the credit quality and recoverability of loans, securities and amounts due from counterparties are inherent in a wide range of the Group's businesses, principally in its lending and investment activities. In particular, the Group is exposed to the risk that borrowers may not repay their loans according to their contractual terms and that the collateral (if any) securing the payment of these loans may be insufficient. The Group regularly reviews and analyses its loan portfolio and credit risks, and the Group's provision for losses on loans is based on, among other things, its analysis of current and historical delinquency rates and loan management and the valuation of the underlying assets, as well as numerous other management assumptions. However, these internal analyses and assumptions may give rise to inaccurate predictions of credit performance, particularly in a volatile economic climate. See "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

At 31 December 2014, the Group's loans, advances and Islamic financing provided to customers (its **customer loan portfolio**) amounted to KD 11,909 million compared to KD 10,695 million at 31 December 2013. The Group's provision for credit losses in respect of its customer loan portfolio amounted to 4.1 per cent. and 3.9 per cent. of its gross customer loan portfolio at 31 December 2014 and 31 December 2013, respectively.

The Group's strategy envisages that it will grow its market shares in Kuwait, will expand its regional and international activities (principally, in the GCC) and will develop particular product areas, for example through building its Islamic banking franchise and enhancing its investment banking capabilities. See "*Description of the Group—Strategy*". As the Group expands its customer loan portfolio, this will increase its credit exposure and management at the Group will need to continually monitor the credit quality of the customer loan portfolio. See "*Risk management—Principal risks—Credit risk*", note 26.1 to the Financial Statements and "*—The Group's risk management policies and procedures may not be effective in all circumstances and may leave it exposed to unidentified or unanticipated risks*" below.

Credit losses could also arise from a deterioration in the credit quality of specific issuers and counterparties of the Group, from a general deterioration in local or global economic conditions, or from systemic risks within these financial systems, which could affect the recoverability and value of the Group's assets and require an increase in its provisions for the impairment of loans, securities and other credit exposures.

Any failure by the Group to maintain the quality of its assets through effective risk management policies could lead to higher loan loss provisioning and result in higher levels of defaults and write-offs, which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Security interests or loan guarantees provided in favour of the Group may not be sufficient to cover any losses and may not be legally enforceable

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

In addition, even if such security interests are enforceable in Kuwaiti courts, the time and costs associated with enforcing security interests in Kuwait may make it uneconomic for the Group to pursue such proceedings, adversely affecting the Group's ability to recover its loan losses. As at 31 December 2014, approximately 50 per cent. of the Group's corporate loans were secured by collateral, including share pledges governed by Kuwaiti law and real estate collateral.

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

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

The Group's customer loan portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region

The Group's customer loan and investment securities portfolios are concentrated, geographically, in Kuwait and the MENA region. The Group's customer loan portfolio and investment securities portfolio (including its holding of Kuwaiti government treasury bonds and CBK bonds) together constituted 70.3 per cent. of its total assets, or KD 15,282 million, at 31 December 2014 and 74.7 per cent. of its total assets, or KD 13,900 million, at 31 December 2013. More than 90 per cent. of the Group's customer loan portfolio at 31 December 2014 was advanced to borrowers in the MENA region, principally in Kuwait, and, in terms of the Group's maximum exposure to credit risk, 80.1 per cent. of this exposure at 31 December 2014 was to counterparties located in the MENA region, principally in Kuwait.

The Group's investment securities portfolio principally comprises debt instruments, with KD 2,476 million, or 80.5 per cent. of the debt instrument portfolio, comprising exposure to MENA region issuers. These issuers are principally Kuwaiti and other governments.

The Group's customer deposits constituted 59.5 per cent. of its total liabilities, or KD 11,260 million, as at 31 December 2014 and 65.9 per cent. of its total liabilities, or KD 10,478 million, as at 31 December 2013. In particular, the Group has a significant concentration of deposits from the Kuwaiti government and its related agencies which approximated 20 to 25 per cent. of the Group's total funding over the three years to 31 December 2014.

As a result, any deterioration in general economic conditions in Kuwait and the wider MENA region or any failure by the Group to manage effectively its geographic risk concentrations could have a material adverse effect on its business, financial condition, results of operations and prospects. See "*—The Group's business, financial condition, results of operations and prospects are and will continue to be affected by global and regional financial markets and economic conditions and any deterioration in economic conditions in Kuwait and the wider MENA region could materially adversely impact the Group*" above.

The Group has significant customer and sector concentrations

The Group's 20 largest loans, advances and Islamic financing provided to customers outstanding as a percentage of its gross customer loan portfolio at 31 December 2014 was 16 per cent. compared to 18 per cent. at 31 December 2013. In addition, the Group's holdings of Kuwaiti government treasury bonds and CBK bonds amounted to 26.1 per cent. of the Group's KD 3,373 million investment securities portfolio as at 31 December 2014.

Although diversified by industry sector, the Group's maximum exposure to credit risk has concentrations of exposure to other banks and financial institutions which, at 31 December 2014, accounted for 33.8 per cent. of its maximum exposure to credit risk compared to 29.6 per cent. at 31 December 2013. The next highest sector concentrations at 31 December 2014 were the retail sector, which accounted for 15.6 per cent. of the

Group's maximum exposure to credit risk, and the real estate sector, which accounted for 10.4 per cent. of the Group's maximum exposure to credit risk. The Group's loan book includes significant investment-related lending (such as regulated margin loans and loans financing investment in IPOs and international equities), which could expose it to increased credit risk if the equity markets and other financial markets in which its customers have invested decline significantly. See further "*Financial Review—Lending*".

In terms of liabilities, the Group's 20 largest customer deposits as at 31 December 2014 constituted 31 per cent. of its total customer deposits at that date.

As a result, a material weakening in the credit quality of, or a default by, any one or more of the Group's large loan customers or issuers of debt securities, or any factors which particularly negatively impacted the financial sector or other sectors to which the Group has significant exposure, could result in the Group making significant additional loan loss provisions and experiencing reduced interest income. Similarly, the withdrawal or non-renewal of its deposits by any one or more of the Group's large depositors could require the Group to obtain replacement funding from other sources which may not be readily available or may be significantly more expensive. Either of such eventualities would be likely to have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has significant credit-related contingent liabilities and commitments that may lead to potential losses

As part of its normal banking business, the Group issues guarantees, letters of credit and acceptances which are accounted for off the Group's balance sheet until such time as they are actually funded or cancelled. In addition, the Group makes irrevocable commitments to advance credit to its customers. Although these commitments are contingent, they nonetheless subject the Group to both credit and liquidity risks. As at 31 December 2014, the Group had KD 3,521 million in such contingent liabilities and commitments outstanding, equal to 22.8 per cent. of its combined customer loan portfolio and contingent liabilities. Although the Group anticipates that only a portion of its obligations in respect of these commitments will be triggered and funds itself accordingly, the Group may need to make payments in respect of a greater portion of such commitments, particularly in cases where there has been a general deterioration in market conditions. This would result in the Group needing to obtain additional funding, potentially at relatively short notice, which could have an adverse effect on its financial condition and results of operations.

The Group is exposed to reputational risks related to its operations and industry

All financial institutions depend on the trust and confidence of their customers to succeed in their business. The Group is exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not valid, will harm its reputation. The Group's reputation may also be adversely affected by the conduct of third parties over whom it has no control, including entities to which it lends money or in which it has invested. For example, if one of the Group's borrowers becomes associated with financial scandals or widely publicised improper behaviour, the Group's own reputation may be affected.

In common with other banks, the Group is also exposed to adverse publicity relating to the financial services industry as a whole. Financial scandals unrelated to the Group or questionable ethical conduct by a competitor may taint the reputation of the industry and affect the perception of investors, public opinion and the attitude of regulators. Any damage to the Group's reputation could cause existing customers to withdraw their business and lead potential customers to be reluctant to do business with the Group. Any of these developments could have an adverse effect on the Group's business, results of operations and financial condition.

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

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

The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or results of operations

Liquidity risk is the risk that the Group will be unable to meet its obligations, including funding commitments, as they become due. This risk is inherent in banking operations and can be heightened by a number of enterprise-specific factors, including over-reliance on a particular source of funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide experienced a severe reduction in liquidity in the final quarter of 2008 and the first half of 2009. Since then, market conditions have been volatile with financial institutions continuing to experience periods of reduced liquidity.

The perception of counterparty risk between banks has also increased significantly since the final quarter of 2008, which led to reductions in certain traditional sources of liquidity, such as the debt markets, asset sales and redemption of investments. The Group's access to these traditional sources of liquidity may be restricted or available only at a higher cost and there can be no assurance that the Kuwaiti government will continue to provide the levels of support that it has provided to date to the Kuwaiti banking sector. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*" below.

In addition, uncertainty or volatility in the capital and credit markets may limit the Group's ability to refinance maturing liabilities with long-term funding or increase the cost of such funding. The Group's access to any additional financing it may need will depend on a variety of factors, including market conditions, the availability of credit generally and to borrowers in the financial services industry specifically, and the Group's financial condition, credit ratings and credit capacity.

The Group has historically relied on both customer and interbank deposits to meet most of its funding needs. The availability of deposits is subject to fluctuation due to factors outside the Group's control, including possible loss of confidence and competitive pressures, and this could result in a significant outflow of deposits within a short period of time. As at 31 December 2014, 79.1 per cent. of the Group's non-equity funding (which comprises amounts due to banks and other financial institutions, customer deposits and certificates of deposit issued) had remaining contractual maturities of up to three months or was payable on demand and 98.2 per cent. had remaining maturities of one year or less or was payable on demand. In addition, the Group's deposits are geographically concentrated and the Group is reliant on certain large deposits from a limited group of government-related and private sector corporate customers. See "*—The Group's customer loan portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" above and "*—The Group has significant individual customer concentrations*" above.

If a substantial portion of the Group's depositors, or any of its largest depositors, withdraw their demand deposits or do not roll over their time deposits at maturity, the Group may need to seek other sources of funding or may have to sell, or enter into sale and repurchase or securitisation transactions over, certain of its assets to meet its funding requirements. There can be no assurance that the Group will be able to obtain additional funding as and when required or at prices that will not affect its ability to compete effectively and, if the Group is forced to sell assets to meet its funding requirements, it may suffer material losses as a result.

In extreme cases, if the Group is unable to refinance or replace such deposits with alternative sources of funding to meet its liquidity needs, through deposits, the interbank markets, the international capital markets or through asset sales, this would have a material adverse effect on its business, financial condition, results of operations and prospects and could, potentially, result in its insolvency.

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

The Group is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic and other objectives and limit their exposure to risk. These controls include laws and regulations promulgated by the CBK, the CMA and the Kuwait Stock Exchange (the **KSE**) and are further described under "*Banking industry and regulation in Kuwait*".

The regulations to which the Group is subject may limit its ability to carry on certain parts of its business, to increase its loan portfolio or to raise capital and may also increase its cost of doing business. In addition, increased regulations or changes in applicable laws and regulations and the manner in which they are interpreted or enforced in Kuwait may impose significant additional costs on the Group and may have a material adverse effect on the Group's business, financial condition, results of operations or prospects. Furthermore, non-compliance by the Group with any applicable regulations could expose it to potential liabilities and fines, which may be significant.

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

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

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

The Bank has a long-term foreign currency issuer default rating of AA- with stable outlook from Fitch, a long-term bank deposits rating of Aa3 with stable outlook from Moody's and an issuer credit rating of A+ with stable outlook from S&P. These ratings, which are intended to measure the Bank's ability to meet its debt obligations as they mature, are an important factor in determining the Bank's cost of borrowing funds.

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

- limit the Bank's or any member of the Group's ability to raise funding;
- increase the Bank's or any member of the Group's cost of borrowing; and
- limit the Bank's or any member of the Group's ability to raise capital,

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

According to each of Moody's, S&P and Fitch, a significant factor underpinning the Bank's ratings is their assessment that there is an extremely high probability of support for the Bank from the Kuwaiti authorities. Any event that causes these or any other applicable rating agency in the future to adjust this view would be likely to result in a negative change in the Bank's rating. See "*—The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past*".

In addition, the credit ratings assigned to the Bank may not reflect the potential impact of all risks related to an investment in the Capital Securities, the market, additional factors discussed in this Prospectus and other factors that may affect the value of the Capital Securities. A security rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to revision or withdrawal at any time by the assigning rating organisation and each rating should be evaluated independently of any other rating.

The Kuwaiti government is under no obligation to support the Group and there is no assurance that the Group will receive future support that is commensurate with the support that it has received in the past

In light of the global financial crisis and its impact on the Kuwaiti banking sector, the Kuwaiti government initiated several plans to support its domestic banks (including the Bank). Although the Kuwaiti government has in the past supported the domestic banking industry (including the Bank), there can be no assurance that it will continue to provide support to the domestic banking industry (including the Bank) in the future. The Capital Securities are not guaranteed by the Kuwaiti government, any of the Bank's shareholders or any other party.

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

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

The Kuwaiti banking sector comprises five locally based conventional commercial banks and branches of 11 other non-Kuwaiti banks. In addition, a specialised bank, five banks operating according to the provisions of Islamic Sharia'a (one of which is a subsidiary of the Bank) and a branch of a Saudi Arabian bank are also licensed to operate in Kuwait.

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

In addition, the Group believes that the Bank's large size has been to some extent a constraint on its ability to grow its loan book across different business groups as the size of the loan book makes settlements larger compared to local smaller peers which requires significantly more effort to grow faster than the market on the gross level to maintain the Bank's net market share of the portfolio.

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

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

The Group's financial condition and results of operations could be adversely affected by market risks that are outside its control, including, without limitation, volatility in interest rates, prices of securities and currency exchange rates. In particular, an increase in interest rates generally may decrease the value of the Group's fixed-rate loans and the debt securities in its investment securities portfolio and may raise the Group's funding costs. In addition, volatility in interest rates may result in a pricing gap between the Group's interest-rate sensitive assets and liabilities, particularly as the Group generally has a discretionary right to change the rates it charges on its customer loans and advances (subject to the cap described below) whilst the rates that it pays on a part of its customer deposit base (being the term deposits) are contractually fixed for the term of the deposit. As a result, the Group generally experiences an increase in its net interest income in times of rising interest rates and a reduction in its net interest income in times of falling interest rates. The reduction is driven by the fact that the interest rates chargeable by the Group on its Kuwaiti dinar-denominated customer loans are capped at prescribed percentages above the CBK discount rate. See "*Financial review—Principal factors affecting results of operations— Factors affecting net interest income and net income from Islamic financing*" as well as note 26.3.1 to the Financial Statements which illustrates the Group's sensitivity to a 0.25 per cent. increase in interest rates at 31 December 2014 and 31 December 2013. Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the CBK and the U.S. Federal Reserve, political factors and domestic and international economic conditions.

The Group maintains a small portfolio of available for sale equity securities in its investment securities portfolio. Any changes in the fair value of these securities, for example as a result of changing equity prices where the securities are quoted on an active market, has an impact on the Group's equity and note 26.3.3 to the Financial Statements illustrates the Group's sensitivity to a 5 per cent. increase in relevant market indices at 31 December 2014 and 31 December 2013. In addition, the Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in currency exchange rates and general market volatility.

As a financial intermediary, the Group is also exposed to foreign exchange rate risk. This risk includes the possibility that the value of a foreign currency asset or liability will change due to changes in currency exchange rates as well as the possibility that the Group may have to close out any open position in a foreign currency at a loss due to an adverse movement in exchange rates. The Group attempts to match the currencies of its assets and liabilities and any open currency position is maintained within the limits set by the CBK. However, where the Group is not so hedged, it is exposed to fluctuations in foreign exchange rates and any such hedging activity may not in all cases protect the Group against such risks. See note 26.3.2 to the Financial Statements which illustrates the Group's sensitivity to a 5 per cent. strengthening in the exchange rate of a number of different currencies against the Kuwaiti dinar at 31 December 2014 and 31 December 2013.

The Group enters into derivative transactions, such as interest rate swaps and forward foreign exchange contracts, to manage its interest rate risk on its interest bearing assets and liabilities and to manage its foreign currency positions and cash flows. These derivative contracts had a notional value of KD 2,027 million at 31 December 2014 and KD 1,425 million at 31 December 2013 and the Group's derivatives portfolio had a negative net fair value of KD 27 million at 31 December 2014 and a positive fair value of KD 2 million at 31 December 2013. There is no assurance that the Group's derivative contracts will be successful in mitigating its interest rate and foreign exchange exposures or that the Group will not experience significant losses on its derivatives contracts from time to time.

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

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

The Group is exposed to a range of operational risks. In particular, any failure of the Group's information technology systems could have a material adverse effect on its business and reputation

Operational risk and losses can result from fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and conduct of business rules, systems and equipment failures (including, in particular, information technology (**IT**) failures), natural disasters or the failure of external systems (for example, those of the Group's counterparties or vendors). The Group has implemented risk controls and loss mitigation strategies, and substantial resources are devoted to developing efficient procedures and to staff training, but it is not possible to eliminate entirely each of the potential operational risks that the Group faces. Losses from the failure of the Group's system of internal controls could have a material adverse effect on its business, financial condition, results of operations and prospects and could materially adversely affect its reputation.

The Group depends on its IT systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of these IT systems or communications networks. Such failures can be caused by a variety of factors, many of which are wholly or partially outside the Group's control, including natural disasters, extended power outages, computer viruses and malicious third party intrusions. The proper functioning of the Group's IT systems also depends on accurate and reliable data and other system input, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties. The Group has implemented and tested business continuity plans and processes as well as disaster recovery procedures, but there can be no assurance that these safeguards will be fully effective and any failure may have a material adverse effect on the Group's business and reputation.

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

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

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

The Group's internal compliance systems might not be fully effective in all circumstances

The Group's ability to comply with all applicable regulations is largely dependent on its maintenance of compliance, audit and reporting systems and procedures, and its ability to attract and retain personnel qualified to manage and monitor such systems and procedures. Although the Group is subject to oversight by regulatory authorities, including regular examination activity, and performs regular internal audits and employs an external auditing firm to review its internal control systems, the Group cannot be certain that these systems and procedures will be fully effective in all circumstances, particularly in the case of deliberate employee misconduct or other frauds perpetrated against it. In the case of actual or alleged non-compliance with applicable regulations, the Group could be subject to investigations and judicial or administrative proceedings that may result in substantial penalties or civil lawsuits for damages. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Although the Group currently has strong capital ratios, it may need to raise further capital in the future for a variety of reasons and such capital may be difficult to raise when needed

As at 31 December 2014, the Group's tier 1 capital adequacy ratio (calculated according to Basel III standards) was 13.3 per cent. and its total capital adequacy ratio was 14.5 per cent., in each case comfortably above the level then required by the CBK of 12.0 per cent. The total capital adequacy ratio required by the CBK is scheduled to increase to 12.5 per cent. from 31 December 2015 and is scheduled to increase to 13.0 per cent. from 31 December 2016. The Group has been notified by the CBK that it will be designated as a domestically systemic important bank (**D-SIB**) with an additional Common Equity Tier 1 D-SIB surcharge of 2 per cent. required from 31 December 2016. As a result, the Group's total minimum capital requirement from that date is expected to be 15 per cent., which includes a capital conservation buffer.

The Group is also subject to a CBK Basel III leverage ratio requirement of 3 per cent. The Group's leverage ratio was 7.8 per cent. at 31 December 2014. The Group expects several Basel-driven regulations to take effect in Kuwait in the near to medium term regarding liquidity and anticipates that a number of new regulations under the Basel regulatory reform regime will be adopted by home and host regulators in the countries in which the Group operates.

A variety of factors affect the Group's capital adequacy levels, including, in particular, changes in its risk weighted assets and its profitability from one period to another. A significant increase in lending in the future is likely to reduce the Group's capital adequacy ratios and any future losses experienced by it would have a similar effect. In addition, regulatory requirements in relation to the calculation of capital adequacy and required levels of capital adequacy may change from time to time including as a result of new guidelines issued by the Basel Committee on Banking Supervision. The Group may also need to increase its capital as a result of market perceptions of adequate capitalisation levels and the perceptions of rating agencies.

As a result, the Group may need to obtain additional capital in the future. Such capital, whether in the form of debt financing or additional equity, may not be available on commercially favourable terms, or at all. Moreover, should the Group's capital ratios fall close to regulatory minimum levels or the Group's own internal minimum levels, the Group may need to adjust its business practices, including reducing the risk and leverage of certain activities. If the Group is unable to maintain satisfactory capital adequacy ratios, its credit ratings may be lowered and its cost of funding may therefore increase. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

The Group's success and ability to maintain current business levels and sustain growth will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. The market for such personnel in the Middle East is intensely competitive and the Group could face challenges in recruiting and retaining such personnel to manage its businesses.

The Group depends on the efforts, skill, reputation and experience of its senior management, as well as synergies among their diverse fields of expertise and knowledge. The loss of key personnel could delay or prevent the Group from implementing its strategies. The Group is also not insured against losses that may be incurred in the event of the loss of any member of its key personnel. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group's accounting policies and methods are critical to how it reports its financial condition and results of operations and require management to make estimates about matters that are uncertain

Accounting policies and methods are fundamental to how the Group records and reports its financial condition and results of operations. Management must exercise judgement in selecting and applying many of these accounting policies and methods so they comply with IFRS.

Management has identified the most significant judgments and estimates made by it in note 2.36 to the Financial Statements. These judgements and estimates include, for example, the determination of when assets may be impaired, the classification of financial assets, the determination of provisions for credit losses and fair values of assets and liabilities.

A variety of factors could affect the ultimate value that is obtained either when earning income, recognising an expense, recovering an asset or reducing a liability. The Group has established policies and control procedures that are intended to ensure that its significant accounting estimates and judgements are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. However, due to the uncertainty surrounding the Group's judgements and the estimates pertaining to these matters, the Group cannot guarantee that it will not be required to make changes in accounting estimates or restate prior period financial statements in the future.

RISKS RELATING TO THE REGION IN WHICH THE GUARANTOR OPERATES

Investing in securities involving emerging markets generally involves a higher degree of risk

Investors in emerging markets, such as Kuwait, should be aware that these markets are subject to greater risks than more developed markets, including, but not limited to, higher volatility, limited liquidity and changes in the political and economic environment. In addition, there can be no assurance that the market for securities bearing emerging market risk, such as the Capital Securities, will not be affected negatively by events elsewhere, especially in the emerging markets.

Specific risks in Kuwait and the MENA region that could have a material adverse effect on the Group's business, financial condition, results of operations and prospects include, without limitation, the following:

- political, economic or social instability;
- external acts of warfare, civil clashes or other hostilities or conflict;
- domestic unrest or violence;
- increases in inflation and the cost of living;
- changing tax regimes and tax laws, including the imposition of taxes in tax-free jurisdictions or the increase of taxes in low-tax jurisdictions;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including legal structures and tax laws;
- difficulties in staffing and managing operations;
- legal systems which could make it difficult for the Group to enforce its intellectual property and contractual rights;
- restrictions on the right to convert or repatriate currency or export assets;
- greater risk of uncollectible accounts and longer collection cycles; and
- logistical and communications challenges.

Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must determine for themselves whether, in light of those risks, an investment in the Capital Securities is appropriate.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

Kuwait and other GCC legal systems continue to develop and this may create an uncertain environment for investment and business activity

Kuwait and many of the other GCC countries are in various stages of developing their legal and regulatory institutions that are characteristic of more developed markets. As a result, procedural safeguards as well as formal regulations and laws may not be applied consistently. In some circumstances it may not be possible to obtain the legal remedies provided under the relevant laws and regulations in a timely manner. As the legal environment remains subject to continuous development, investors in Kuwait and the GCC countries may face uncertainty as to the security of their investments. Any unexpected changes in the legal systems in Kuwait and the GCC may have a material adverse effect on the rights of holders of the Capital Securities or the investments that the Group has made or may make in the future, which may in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

The Capital Securities are subordinated and unsecured obligations of the Bank

Prospective investors should note that the payment obligations of the Bank under the Subordinated Guarantee are subordinated to the Guarantor Senior Obligations (as defined in the Subordinated Guarantee), rank *pari passu* with the Guarantor Pari Passu Obligations (as defined in the Subordinated Guarantee) and rank in priority only to all Guarantor Junior Obligations (as defined in the Subordinated Guarantee). Accordingly, the payment obligations of the Bank under the Subordinated Guarantee rank junior to all unsubordinated payment obligations of the Bank (including depositors of the Bank in respect of their due claims) and all subordinated payment obligations of the Bank to which the payment obligations under the Subordinated Guarantee rank or are expressed to rank junior, and *pari passu* with all subordinated payment obligations of the Bank which rank or are expressed to rank *pari passu* with the payment obligations under the Subordinated Guarantee.

Further, the payment obligations of the Bank under the Subordinated Guarantee are unsecured and no collateral is or will be given by the Bank in relation thereto.

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

No limitation on issuing senior securities; subordination

Other than the limitations in relation to the issue of further Tier 1 Capital (as defined in the Conditions) by the Bank as set out in Condition 4.3 (*Other Issues*) which limits the circumstances in which Tier 1 Capital of the Bank can be issued that ranks senior to the Capital Securities, there is no restriction on the Bank (in its capacity as the Guarantor or otherwise) incurring additional indebtedness or on issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Capital Securities and the obligations of the Bank under the Subordinated Guarantee (defined in the Subordinated Guarantee as **Guarantor Senior Obligations**). The issue of or the creation of any such Guarantor Senior Obligations may reduce the amount recoverable by holders of the Capital Securities on a winding-up or liquidation of the Bank. Accordingly, in the winding-up or liquidation of the Bank and after payment of the claims of creditors in respect of Guarantor Senior Obligations, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Capital Securities. See also "*– The Capital Securities are subordinated and unsecured obligations of the Bank*".

Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative

No Interest Payment Amounts are payable if either a Non-Payment Event or a Non-Payment Election (each as defined in the Conditions) occurs.

Pursuant to Condition 5.6 (*Non-Payment Event*), if a Non-Payment Event occurs, the Issuer shall not pay Interest Payment Amounts on the relevant Interest Payment Date.

Pursuant to Condition 5.7 (*Non-Payment Election*), in the event of a Non-Payment Election, each of the Issuer and the Bank may at its sole discretion elect not to make payment of an Interest Payment Amount to holders of the Capital Securities on the corresponding Interest Payment Date.

In the event of a Non-Payment Event or a Non-Payment Election, certain restrictions on declaration of dividends and redemption of certain securities by the Issuer and the Guarantor will apply in accordance with Condition 5.9 (*Dividend and Redemption Restrictions*). However, the holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of either a Non-Payment Election or a Non-Payment Event and the consequential non-payment of any Interest Payment Amount in such a circumstance shall not constitute an Enforcement Event. The Bank shall not have any obligation to make any subsequent payment in respect of any such unpaid amount.

In such case, the holders of the Capital Securities will not receive Interest Payment Amounts on their investment in the Capital Securities and shall not have any claim in respect thereof.

Perpetual Securities

The Capital Securities are perpetual securities which have no scheduled repayment date. Holders of the Capital Securities have no ability to require the Issuer to redeem their Capital Securities unless an Enforcement Event (as defined in the Conditions) occurs. The Issuer has the option to redeem the Capital Securities in certain circumstances as more particularly described in Condition 7 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the holders of the Capital Securities have no ability to cash in their investment, except:

(a) if the Issuer exercises its rights to redeem the Capital Securities in accordance with Condition 7 (*Redemption and Variation*);

(b) upon the occurrence of an Enforcement Event (subject to the subordination provisions contained in the Conditions and the Subordinated Guarantee); or

(c) by selling their Capital Securities.

There can be no assurance that holders of the Capital Securities will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities. Further, there can be no assurance that a holder of Capital Securities will receive the full amount of their investment if they sell their Capital Securities or if, upon the occurrence of an Enforcement Event, they make a claim for the winding-up or dissolution of the Guarantor.

Securityholders' right to receive repayment of the principal amount of the Capital Securities and the Securityholders' right for any further profit may be written-down upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs at any time, the Capital Securities will be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) and all rights of any Securityholder for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders and, in each case, not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto and even if the Non-Viability Event has ceased. Further, whilst it is intended that the ordinary shares of the Guarantor should absorb losses prior to the Capital Securities, a Write-down in full or in part of the Capital Securities could occur prior to the ordinary shares of the Guarantor absorbing losses in full. A Write-down shall not constitute an Enforcement Event. As a result, Securityholders will lose the entire amount or, as the case may be, a material amount, of their investment in the Capital Securities. Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 8 (*Write-down at the Point of Non-Viability*) has not been tested in Kuwait and therefore some degree of uncertainty may exist in its application.

The circumstances triggering a Write-down are unpredictable

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

The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Financial Regulator in circumstances that may be beyond the control of the Guarantor and with which the Guarantor or the Securityholders may not agree.

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

Upon the occurrence and continuation of a Capital Event or a Tax Event, the Issuer may, subject as provided in Condition 7.3 (*Redemption or variation for regulatory reasons*) or Condition 7.4 (*Redemption or variation for taxation reasons*) (as the case may be) at any time and without the need for any consent of the Securityholders, either redeem or vary the terms of the Capital Securities such that they become or remain (as appropriate) Qualifying Tier 1 Instruments (as defined in the Conditions).

A Capital Event is deemed to have occurred if the Bank is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan (as defined in the Conditions) is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank, or (ii) the outstanding principal amount of the Capital Securities is excluded (in full or in part) from the consolidated Tier 1 Capital of the Bank (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

A Tax Event means that the Issuer or the Bank has or will become required to pay additional amounts, as a result of any change in, or amendment to the laws, published practice or regulations of the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein or of the State of Kuwait or any political subdivision or authority thereof or therein having power to tax, or in each case as a result of any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 7 April 2015 (and such requirement cannot be avoided by the Bank taking reasonable measures available to it).

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

The Capital Securities may be subject to early redemption; redemptions conditional

Upon the occurrence of a Tax Event or a Capital Event, the Issuer may, at any time, having given not less than 30 nor more than 60 days' prior notice to the holders of the Capital Securities in accordance with Condition 7.3 (*Redemption or variation for regulatory reasons*) and Condition 7.4 (*Redemption or variation for taxation reasons*) (as applicable) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Capital Securities. The Issuer may also, at its discretion, having given not less than 30 nor more than 60 days' prior notice to the holders of the Capital Securities, redeem in accordance with Condition 7.2 (*Redemption at the Option of the Issuer*) all, but not some only, of the Capital Securities on the First Call Date (as defined in the Conditions) or on any Interest Payment Date thereafter.

Any redemption of the Capital Securities is subject to the requirements in Condition 7.1 (*No fixed redemption date and conditions for redemption and variation*), including obtaining the prior approval of the Financial Regulator. There can be no guarantee that the approval of the Financial Regulator will be received on time or at all.

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

Modification

The Conditions contain provisions for calling meetings of holders of the Capital Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Capital Securities including holders of the Capital Securities who did not attend and vote at the relevant meeting and holders of the Capital Securities who voted in a manner contrary to the majority.

The Conditions also provide that the Fiscal Agent, the Issuer and the Guarantor may agree, without the consent of holders of the Capital Securities, to any modification of any Capital Securities, in the circumstances specified in Condition 15.2 (*Modification*).

The Conditions also provide that the Issuer may, without the consent or approval of the holders of the Capital Securities, vary the Conditions so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, as provided in Condition 7.3 (*Redemption or variation for regulatory reasons)* and Condition 7.4 *(Redemption or variation for taxation reasons*). See "*Variation upon the occurrence of a Capital Event or a Tax Event*" above.

Withholding under the EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. They will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld).

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the Guarantor, any Paying Agent (as defined in the Conditions of the Capital Securities) nor any other person would be obliged to pay additional amounts with respect to any Capital Security as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Foreign Account Tax Compliance Act withholding may affect payments on the Capital Securities

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to (a) certain payments from sources within the United States, (b) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (c) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. Whilst the Capital Securities are in global form and held within Euroclear or Clearstream, Luxembourg (together, the **ICSDs**), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Capital Securities are discharged once it has made payment to, or to the order of, a common depositary for the ICSDs, and the Issuer has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an **IGA**) are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act*".

Trading in the clearing systems

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

If Capital Securities are issued, holders should be aware that Capital Securities which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Capital Securities will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearsteam, Luxembourg. Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Capital Securities. Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Capital Securities are represented by a Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their respective participants. While Capital Securities are represented by a Global Certificate, the Issuer will discharge its payment obligation under such Capital Security by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Capital Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Capital Securities so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk and credit risk:

Resettable fixed rate instruments have a market risk

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

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Capital Securities will develop or, if it does develop, that it will provide the holders of the Capital Securities with liquidity of investment or that it will continue for the life of the Capital Securities. The Capital Securities generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "– *Perpetual Securities*"), are subordinated (see "– *The Capital Securities are subordinated and unsecured obligations of the Bank*") and payments of Interest Payment Amounts may be restricted in certain circumstances (see "– *Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Capital Securities to be admitted to the Official List of the Irish Stock Exchange plc and for such Capital Securities to be admitted to trading on the Main Securities Market. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Capital Securities.

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

Exchange rate risks and exchange controls

The Issuer will pay principal and distributions on the Capital Securities in U.S. dollars and the Guarantor will make any payments under the Subordinated Guarantee in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (a) the Investor's Currency-equivalent yield on the Capital Securities; (b) the Investor's Currency-equivalent value of the principal payable on the Capital Securities; and (c) the Investor's Currency-equivalent market value of the Capital Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less distributions or principal than expected, or no distributions or principal.

Taxation risks on payments

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

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

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

The application and enforcement of the Kuwaiti income tax regime to holders of the Capital Securities which are "non-GCC corporate entities" (as defined in "*Taxation — Kuwait*") is uncertain. There is a possibility that any holder of the Capital Securities which is a non-GCC corporate entity may become subject to the Kuwaiti income tax regime in the future, should the Department of Income Tax (the **DIT**) at the Kuwaiti Ministry of Finance and/or the Kuwaiti courts determine that the income received by a holder of the Capital Securities in respect of any Capital Securities held by it (whether payments are received directly from the Issuer or are received from the Guarantor under the Subordinated Guarantee, should there be a call on the Subordinated Guarantee) represents the "lending of funds inside Kuwait" (and hence constitutes the conducting of business in Kuwait for the purposes of the income tax regime in Kuwait), even if the holder of the Capital Securities is not incorporated or otherwise located in Kuwait.

To date there has been no official statement made publicly by the DIT regarding its interpretation of, and/or application of, the regime described in the previous paragraph in the context of a transaction such as the issue of the Capital Securities, in particular where the issuer thereof is not incorporated in Kuwait. Similarly, the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such requirement to date. Although there has been no precedent of the DIT enforcing the imposition of income tax on non-GCC corporate entity lenders in the circumstances described above, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws (as defined in "*Taxation — Kuwait*") in practice. Furthermore, the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally.

If the DIT and/or the Kuwaiti courts were to determine that the income received by a holder of Capital Securities which is a non-GCC corporate entity in respect of any Capital Securities held by it (whether payments are received directly from the Issuer or are received from the Guarantor under the Subordinated Guarantee, should there be a call on the Subordinated Guarantee) represents the "lending of funds inside Kuwait" (and hence constitutes the conducting of business in Kuwait for the purposes of the income tax regime described above), then such non-GCC corporate entity would become subject to the Kuwaiti income tax regime, which requires income tax (at a flat rate of 15 per cent.) to be levied on the net income and capital gains of such non-GCC corporate entities, and imposes certain disclosure and reporting obligations on persons subject to such regime (which would include an obligation to file a tax return in Kuwait). In addition, a deduction of five per cent. of the amount of any payments made by the Guarantor directly to the holders of the Capital Securities (if there is a call on the Subordinated Guarantee) may be applied in certain circumstances, pending resolution of their tax position, although such amounts would be required to be grossed up by the Guarantor pursuant to the provisions of the Subordinated Guarantee and Condition 9 (*Taxation*).

Whilst the application and enforcement of the Kuwaiti income tax regime remains uncertain, there can be no assurance that holders of Capital Securities which are "non-GCC corporate entities" will not become subject to such regime in the circumstances described above. Prospective purchasers of the Capital Securities are advised to consult their tax advisers as to the consequences under Kuwaiti and other applicable tax laws of acquiring, holding and disposing of the Capital Securities and receiving payments under the Capital Securities and the Subordinated Guarantee.

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

Enforcement under Kuwaiti Law

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

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

Enforceability of the Guarantor's obligations under the Subordinated Guarantee

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

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

Enforcing foreign judgments and arbitral awards in Kuwait

The Subordinated Guarantee, the Agency Agreement and the Capital Securities (the **Documents**) each contains a provision to the effect that disputes arising under the Documents will, unless the option to litigate set out therein is exercised, be referred to arbitration under the London Court of International Arbitration Rules. If such option to litigate is exercised, the Guarantor has agreed to the courts of England (the **Courts of England**) having exclusive jurisdiction to settle any such disputes.

Foreign Judgments

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

There can therefore be no assurance that the Kuwaiti Courts will decline jurisdiction to adjudicate any dispute under the Documents, notwithstanding that the Documents provide that the Courts of England shall have exclusive jurisdiction to settle any disputes arising thereunder. The Kuwaiti Courts could be influenced when deciding whether or not to decline jurisdiction by the existence of proceedings relating to such dispute in another jurisdiction.

The enforcement of a monetary judgment (not involving the payment of taxes or the like) obtained in the Courts of England by the Kuwaiti Courts would require the filing of an enforcement action in the Kuwaiti Courts. Such action does not involve either a re-trial or an examination of the merits of the case; its sole purpose is to establish whether the judgment is compliant with the provisions of Article 199 of the Code which require that: (a) the courts of the jurisdiction by which the judgment was rendered must afford reciprocal treatment to judgments rendered in Kuwait; (b) the judgment must be rendered by a competent authority according to the law of the jurisdiction in which it was rendered; (c) the parties must have been duly summoned to appear and were duly represented at the proceedings; (d) the judgment must be final and non-appealable (*res judicata*) according to the law of the jurisdiction in which it was rendered; (e) the judgment must not contradict any prior judgment rendered by a Kuwaiti Court; and, finally (f) the judgment must not contain anything in conflict with the general morals or public order of Kuwait.

In respect of the requirement that the courts of the jurisdiction in which the judgment was issued must afford reciprocal treatment to judgments issued by the Kuwaiti Courts, there is no treaty between Kuwait and the United Kingdom that affords such required reciprocal treatment. There are no known instances of the Courts of England enforcing Kuwaiti judgments, while there are different decisions issued by the Court of Cassation (the highest court in Kuwait) with regard to the enforcement in Kuwait of a monetary judgment issued by the Courts of England. In 2004 and again in 2005, the Court of Cassation had to consider applications for the enforcement in Kuwait of an English judgment. In the 2004 case, the Court of Cassation was satisfied that, on the facts, the criteria for enforcement set out in Article 199 of the Code had been satisfied and therefore approved enforcement. In the 2005 case, however, the Court of Cassation concluded that the criteria had not been satisfied and therefore did not approve enforcement. It should be noted that precedents are not binding on but only of persuasive value to the Kuwaiti Courts.

Arbitral awards

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

As noted above, enforcement of a foreign arbitral award or foreign judgment in Kuwait requires the filing of an enforcement action in the Kuwaiti Courts. Proceedings before the Kuwaiti Courts, including enforcement actions, can take a relatively long time before a final and non-appealable judgment is issued.

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

Change in law

The Conditions are governed by English law and the laws of the Dubai International Financial Centre and the Subordinated Guarantee is governed by English law, in each case in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law or the laws of the Dubai International Financial Centre after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer or the Guarantor to make payments under the Capital Securities or the Subordinated Guarantee, as applicable.

OVERVIEW OF THE ISSUANCE

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

Words and expressions defined in "*Terms and Conditions of the Capital Securities*" shall have the same meanings in the following description.

Issuer:	NBK Tier 1 Financing Limited
Ownership of the Issuer:	The authorised share capital of the Issuer is U.S.$100 consisting of 100 shares of U.S.$1 nominal value each, of which all 100 shares are fully paid up and issued. The Issuer is a wholly-owned subsidiary of the Guarantor.
Administration of the Issuer:	The affairs of the Issuer are managed by Maples Fund Services (Middle East) Limited, a corporate services provider regulated by the Dubai Financial Services Authority who will provide, *inter alia*, corporate administrative services and director services for and on behalf of the Issuer pursuant to the corporate services agreement dated 19 March 2015 between the Issuer and Maples Fund Services (Middle East) Limited. Maples Fund Services (Middle East) Limited's registered office is Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, UAE.
Guarantor:	National Bank of Kuwait S.A.K.P.
Description:	U.S.$700,000,000 Perpetual Tier 1 Capital Securities
Global Coordinators:	HSBC Bank plc and Standard Chartered Bank
Joint Lead Managers:	Citigroup Global Markets Limited, HSBC Bank plc, National Bank of Abu Dhabi PJSC, Standard Chartered Bank and Watani Investment Company KSCC
Co-Lead Manager:	Union National Bank PJSC
Fiscal Agent and Calculation Agent:	Deutsche Bank AG, London Branch
Registrar and Transfer Agent:	Deutsche Bank Luxembourg S.A.
Issue Date:	9 April 2015
Issue Price:	100 per cent. of the aggregate principal amount of the Capital Securities
Interest Payment Dates:	Subject to Condition 5.6 (*Non-Payment Event*) and Condition 5.7 *(Non-Payment Election)*, interest will be payable semi-annually in arrear on 9 April and 9 October in every year, commencing on 9 October 2015.
Interest Payment Amounts:	Subject to Condition 7.2 (*Redemption at the Option of the Issuer*), interest will be payable at the rate of 5.750 per cent. per annum up to the First Call Date and thereafter, at the Reset Interest Rate (each as defined in the Conditions), calculated in accordance with Condition 5.3 (*Reset Interest Rate*).

If the Issuer makes a Non-Payment Election or a Non-Payment Event occurs, the Issuer shall not pay the corresponding Interest Payment Amounts and the Issuer shall not have any obligation to make any subsequent payment in respect of any unpaid Interest Payment Amount as more particularly described in Condition 5.6 (*Non-Payment Event*) and Condition 5.7 (*Non-Payment Election*). In such circumstances, distributions will not be cumulative and any distributions which are not paid will not accumulate or compound and holders of the Capital Securities will have no right to receive such distributions at any time, even if other distributions are paid in the future.

Form of Capital Securities: The Capital Securities will be issued in registered form. The Capital Securities will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Certificates evidencing holding of Capital Securities will be issued in exchange for interests in the Global Certificate only in limited circumstances.

Clearance and Settlement: Holders of the Capital Securities must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

Denomination: The Capital Securities will be issued in registered form in nominal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Status of the Capital Securities: The Capital Securities constitute direct, unconditional, subordinated and unsecured obligations of the Issuer and rank *pari passu* among themselves. The payment obligations of the Issuer under the Capital Securities will at all times rank (a) junior to all Senior Obligations of the Issuer, (b) *pari passu* with all Pari Passu Obligations of the Issuer, and (c) senior to all Junior Obligations of the Issuer (each as defined in the Conditions).

Subordinated Guarantee of the Capital Securities: The obligations of the Guarantor under the Subordinated Guarantee constitute direct, conditional, unsecured and subordinated obligations of the Guarantor which obligations will at all times, (a) be subordinated to all Senior Obligations of the Guarantor, (b) rank *pari passu* with all Pari Passu Obligations of the Guarantor, and (c) rank in priority to all Junior Obligations of the Guarantor (each as defined in the Conditions).

Redemption and Variation: The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem, purchase or vary them in accordance with the provisions of Condition 7 (*Redemption and Variation*) including, at the option of the Issuer (as described above), for taxation reasons or for regulatory reasons (each as described below).

Pursuant to Condition 7.2 (*Redemption at the option of the Issuer*), the Issuer may, on the First Call Date or on any Interest Payment Date thereafter, redeem all, but not some only, of the Capital Securities at their outstanding principal amount together with interest accrued to but excluding the date of redemption.

Upon the occurrence of a Capital Event, the Capital Securities may be redeemed or varied (subject to certain conditions being satisfied and subject to the prior approval of the Financial Regulator) at the option of the Issuer in whole, but not in part, on any date, on giving (a) not less than 30 nor more than 60 days' notice to the Securityholders, and (b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in (a) immediately above, (which notices shall be irrevocable), in the case of redemption, at the Capital Event Early Redemption Amount. See Condition 7.3 (*Redemption or Variation for Regulatory Reasons*).

Upon the occurrence of a Tax Event, the Capital Securities may be redeemed or varied (subject to certain conditions being satisfied and subject to the prior approval of the Financial Regulator) at the option of the Issuer in whole, but not in part, on any date, on giving (a) not less than 30 nor more than 60 days' notice to the Securityholders, and (b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in (a) immediately above (which notices shall be irrevocable), in the case of redemption, at the principal amount, together with interest accrued to the date fixed for redemption. See Condition 7.4 (*Redemption or Variation for Taxation Reasons*).

Any redemption of the Capital Securities is subject to the conditions described in Condition 7.1 (*No Fixed Redemption Date and Conditions for Redemption and Variation*).

Non-Viability Event:

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

Enforcement Events:	Upon the occurrence of an Enforcement Event, the only remedies available to a Securityholder are to institute proceedings for the dissolution and liquidation of the Guarantor in accordance with Condition 12 (*Enforcement Event*) and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor.
Withholding Tax:	All payments of principal and interest in respect of the Capital Securities by or on behalf of the Issuer or the Guarantor, shall be made free and clear of, and without withholding deduction or retention for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any of the Relevant Jurisdictions (as defined in the Conditions) unless the withholding, deduction or retention of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as may be necessary in order that the net amounts received by the Securityholders after such withholding, deduction or retention shall equal the respective amounts which would have been receivable in respect of the Capital Securities in the absence of the withholding, deduction or retention subject to certain exceptions, all as described in Condition 9 (*Taxation*).
Negative Covenant:	The Issuer and the Guarantor have agreed in the Conditions and the Subordinated Guarantee, respectively, not to amend, vary, waive, rescind, replace or revoke the On-Loan Agreement to the extent set out in Condition 10 (*On-Loan Agreement*).
Ratings:	The Guarantor has a long-term rating of A+ and a short-term rating of A-1 from S&P; a long-term rating of Aa3 and a short-term rating of P-1 by Moody's; and a long-term rating of AA- and a short-term rating of F1+ by Fitch. The Capital Securities are expected to be assigned a rating of Baa3 by Moody's. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued or endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation (or is endorsed and published or distributed by subscription by such a credit rating agency in accordance with the CRA Regulation).
Listing and Admission to Trading:	Application has been made to the Irish Stock Exchange plc for the Capital Securities to be admitted to the Official List and to trading on the Main Securities Market.

Governing Law and Jurisdiction:

The Capital Securities (except for Condition 3.1 (S*tatus of the Capital Securities and Subordination*)) and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by, and shall be construed in accordance with, English law. Condition 3.1 (*Status of the Capital Securities and Subordination*) will be governed by the laws of the Dubai International Financial Centre.

The Subscription Agreement, the Agency Agreement and the Subordinated Guarantee and any non-contractual obligations arising out of, or in connection with the Subscription Agreement, the Agency Agreement and the Subordinated Guarantee will be governed by, and shall be construed in accordance with, English law. In respect of any dispute, claim, difference or controversy under the Capital Securities, the Subscription Agreement, the Agency Agreement and the Subordinated Guarantee, the Issuer has consented to arbitration in accordance with the LCIA Arbitration Rules unless any Manager (in the case of the Subscription Agreement), Agent (in the case of the Agency Agreement) or Securityholder (in the case of the Subordinated Guarantee) elects to have the dispute, claim, difference or controversy resolved by a court, in which case the English courts will have exclusive jurisdiction to settle such dispute.

Selling Restrictions:

There are restrictions on the offer, sale and transfer of the Capital Securities in the United States, the United Kingdom, Hong Kong, Japan, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, the State of Kuwait, the Kingdom of Saudi Arabia, Kingdom of Bahrain and the State of Qatar and such other restrictions as may be required in connection with the offering and sale of the Capital Securities. See "*Subscription and Sale*".

Risk Factors:

Investing in the Capital Securities involves risks. See "*Risk Factors*".

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following is the text of the Conditions of the Capital Securities which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Capital Securities:

The U.S.$700,000,000 Perpetual Tier 1 Capital Securities (the **Capital Securities**, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 16 and forming a single series with the Capital Securities) of NBK Tier 1 Financing Limited (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated the Issue Date (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, National Bank of Kuwait S.A.K.P. (the **Guarantor**) as guarantor, Deutsche Bank Luxembourg S.A. as registrar (the **Registrar**) and as transfer agent (the **Transfer Agent**), Deutsche Bank AG, London Branch as fiscal agent (the **Fiscal Agent** and, together with the other initial paying agents named in the Agency Agreement, the **Paying Agents**) and as calculation agent (the **Calculation Agent**) (together with the Fiscal Agent, the Registrar, the Transfer Agent and the other Paying Agents, the **Agents**). Copies of the Agency Agreement, the Subordinated Guarantee (as defined below) and the On-Loan Agreement (as defined below) are available for inspection and/or collection during normal business hours by the holders of the Capital Securities (the **Securityholders**) at the specified office of the Fiscal Agent.

The Issuer has authorised the creation, issue and sale of the Capital Securities for the sole purpose of making a U.S.$700,000,000 subordinated loan (the **Loan**) to the Guarantor. The Issuer and the Guarantor have recorded the terms of the Loan in a loan agreement (the **On-Loan Agreement**) dated the Issue Date between the Issuer and the Guarantor.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement and the Subordinated Guarantee. Copies of the Agency Agreement, the Subordinated Guarantee and the On-Loan Agreement are available for inspection during normal business hours by the Securityholders at the specified office of each of the Paying Agents. The Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Subordinated Guarantee applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Paying Agents, the Transfer Agents, the Calculation Agent and the Agents shall include any successor appointed under the Agency Agreement.

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

1. Form, Denomination and Title

1.1 Form and Denomination

The Capital Securities are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Capital Security). A capital security certificate (each a **Certificate**) will be issued to each Securityholder in respect of its registered holding of Capital Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar.

The Capital Securities are not issuable in bearer form.

1.2 Title

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

2. Transfers of Capital Securities and issue of Certificates

2.1 Transfers

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

2.2 Delivery of new Certificates

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

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

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

2.3 Formalities free of charge

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

2.4 Closed Periods

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

2.5 Regulations

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

3. Status of the Capital Securities, Subordination and Limited Recourse

3.1 Status of the Capital Securities and Subordination

The Capital Securities constitute direct, unconditional, subordinated (as described below) and unsecured obligations of the Issuer and rank *pari passu* among themselves.

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

Each holder of a Capital Security unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Capital Security. No collateral is or will be given for the payment obligations under the Capital Securities and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations under the Capital Securities.

3.2 Limited Recourse and Agreement of Securityholders

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

The payments received by the Issuer from the Guarantor (the **Relevant Assets**) are the sole source of payments on the Capital Securities. The net proceeds of the realisation of, or enforcement with respect to, the Relevant Assets may not be sufficient to make all payments due in respect of the Capital Securities. Securityholders, by subscribing for or acquiring the Capital Securities, acknowledge and agree that Maples Fund Services (Middle East) Limited has been appointed as the corporate services provider in relation to the Issuer (in such capacity the **Corporate Services Provider**), and that the directors of the Issuer are employees, directors and/or officers of the Corporate Services Provider. Notwithstanding anything contrary contained in these Conditions or the Agency Agreement or any other transaction document entered into by the Issuer in relation to or in connection with the Capital Securities (the **Transaction Documents**), the Securityholders each agree that no recourse (whether under these Conditions or under any other Transaction Document) shall be had against any of (i) the Corporate Services Provider or its affiliates or (ii) the directors and/or secretary of the Issuer or their assets. The Securityholders further agree not to pursue any action or make any claim or demand or commence any proceedings against the Corporate Services Provider, its successors or assigns, directors, officers or employees present and future, or the directors and/or secretary of the Issuer as a result of the performance of the functions and services provided by the Corporate Services Provider and the directors and/or secretary of the Issuer pursuant to the Corporate Services Agreement dated 19 March 2015 between the Issuer and the Corporate Services Provider.

4. Guarantee and Issuer Covenants

4.1 Guarantee

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

4.2 Status of the Guarantee and Subordination

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

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

4.3 Other Issues

The Guarantor has agreed in the Subordinated Guarantee that, so long as any of the Capital Securities remain outstanding, the Guarantor will not, and will procure that neither the Issuer nor any of its other Subsidiaries will, issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or on a consolidated basis) issued Tier 1 Capital of the Guarantor if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Capital Securities (in the case of the Issuer) and/or the Guarantor's payment obligations under the Subordinated Guarantee (in the case of the Guarantor). This prohibition will not apply if at the same time or prior thereto, these Conditions and the Subordinated Guarantee are amended to ensure that these Conditions and the Subordinated Guarantee have the benefit of such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Capital Securities and the Subordinated Guarantee rank *pari passu* with, and contain substantially similar rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

4.4 Issuer Covenants

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

(a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person (other than the Capital Securities) or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) other than those in issue as at the date of issue of the Capital Securities;

(b) secure any of its present indebtedness for borrowed money or present or future obligations by any lien, pledge, charge, mortgage or other security interest upon any of its present or future undertakings, assets, properties or revenues (other than those arising by operation of law if any);

(c) sell, transfer, assign, participate, exchange, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise), any of its assets;

(d) use the net proceeds of the issue of the Capital Securities for any purpose other than advancing such proceeds to the Guarantor or use the amounts paid to it by the Guarantor other than to make payments on the Capital Securities when due;

(e) have any subsidiaries or employees (other than directors);

(f) redeem or buy-back any of its shares or pay any dividend or make any other distribution to its shareholders;

(g) put to its directors or shareholders (i) any resolution for or appoint any liquidator for its winding up or (ii) any resolution for the commencement of any other bankruptcy or insolvency proceedings with respect to it;

(h) enter into any contract, transaction, amendment, obligation or liability other than those entered into in connection with and for the purpose of issuing the Capital Securities, advancing the proceeds of the issuance to the Guarantor or the ongoing management and administration of the Issuer; or

(i) consolidate or merge with any other person.

5. Interest

5.1 Interest Rate and Interest Payment Dates

Subject to Conditions 5.6 and 5.7, the Capital Securities bear interest on their outstanding principal amount:

(a) from and including the Issue Date to but excluding 9 April 2021 (the **First Reset Date**) at the rate of 5.750 per cent. per annum (the **Initial Interest Rate**);

(b) thereafter, at the relevant Reset Interest Rate, payable semi-annually in arrear on 9 April and 9 October in each year (each an **Interest Payment Date**); and

(c) the first payment (for the period from and including the Issue Date to but excluding 9 October 2015 (the **First Interest Payment Date**) and amounting to U.S.$28.75 per U.S.$1,000 per principal amount of Capital Securities) shall be made on 9 October 2015.

5.2 Calculation of broken interest

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

5.3 Reset Interest Rate

The Calculation Agent will agree in the Agency Agreement that, on each Reset Determination Date at approximately 11.00 a.m. (New York time), it will determine the Reset Interest Rate for the immediately following Reset Period.

5.4 Publication of Reset Interest Rate

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

5.5 Notifications, etc. to be final

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

5.6 Non-Payment Event

Notwithstanding this Condition 5, if any of the following events occurs (each, a **Non-Payment Event**), the Issuer shall not pay Interest Payment Amounts on any Interest Payment Date:

(a) the Interest Payment Amount payable by the Issuer, when aggregated with any distributions payable by the Issuer and the Guarantor on any of their respective Pari Passu Obligations having the same dates in respect of payment of such distributions as the dates for payment of the Interest Payment Amounts, exceeds, on the relevant date for payment of the relevant Interest Payment Amount, the Guarantor's Distributable Funds;

(b) the Guarantor is, on that Interest Payment Date, in breach of (or such payment would cause a breach of) the Applicable Regulatory Capital Requirements (including any applicable capital buffers imposed on the Guarantor by the Financial Regulator); or

(c) the Financial Regulator requires the Guarantor to procure that the Issuer does not pay the relevant Interest Payment Amount on that Interest Payment Date.

5.7 Non-Payment Election

Notwithstanding this Condition 5, each of the Issuer and the Guarantor may in its sole discretion elect that any Interest Payment Amount will not be paid (in whole or in part) on any Interest Payment Date. The foregoing shall not, however, apply once the Issuer has given notice to Securityholders that the Capital Securities will be redeemed in whole in accordance with Condition 7.

5.8 Effect of Non-Payment Event or Non-Payment Election

If either the Issuer or the Guarantor makes a Non-Payment Election or a Non-Payment Event occurs, then the Issuer (failing whom, the Guarantor) shall (a) in the case of a Non-Payment Election, 14 calendar days prior to such event, and (b) in the case of a Non-Payment Event, as soon as practicable thereafter but in any case no later than five Business Days prior to the relevant Interest Payment Date, give notice to the Securityholders and the Agents in accordance with Condition 14 in each case providing details of the Non-Payment Election (including, if relevant, details of any partial payment to be made) or Non-Payment Event. Securityholders shall have no claim in respect of any Interest Payment Amount (or any part thereof) not paid as a result of either a Non-Payment Election or a Non-Payment Event and any non-payment of an Interest Payment Amount (or any part thereof) in such circumstances shall not constitute an Enforcement Event. Neither the Issuer nor the Guarantor shall have any obligation to make any subsequent payment in respect of any such unpaid and cancelled Interest Payment Amount (or any part thereof).

5.9 Dividend and Redemption Restrictions

If any Interest Payment Amount (or any part thereof) is not paid as a consequence of a Non-Payment Event or a Non-Payment Election pursuant to Conditions 5.6 or 5.7 respectively, then, from the date of such Non-Payment Event or Non-Payment Election (the **Dividend Stopper Date**), neither the Issuer nor the Guarantor will, so long as any of the Capital Securities are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares issued by the Issuer or the Guarantor (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) pay interest or any other distribution on any of its securities, ranking, as to the right of payment of dividend, distributions or similar payments, junior to, or *pari passu* with, the Capital Securities (excluding securities the terms of which do not at the relevant time enable the Issuer or the Guarantor, as the case may be, to defer or otherwise not to make such payment), only to the extent such restrictions on payment or distribution are permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any Ordinary Shares issued by it; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire any securities issued by the Issuer or the Guarantor, as the case may be, ranking, as to the right of repayment of capital, junior to, or *pari passu* with, the Capital Securities (excluding, in respect of such securities (i) any mandatory redemption in accordance with its terms or (ii) any conversion into, or exchange for, Ordinary Shares of the Guarantor), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the relevant regulatory criteria for Tier 1 Capital applicable from time to time,

in each case unless or until two consecutive Interest Payment Amounts following the Dividend Stopper Date have been paid in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the Securityholders).

6. Payments

6.1 Payments in respect of Capital Securities

Payment of principal and premium (if any) and interest will be made by transfer to the registered account of the Securityholder or by U.S. dollar cheque drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Securityholder if it does not have a registered account. Payments of principal and premium (if any) and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest Payment Amounts due on an Interest Payment Date will be paid to the holder shown on the register of Securityholders at the close of business on the date (the **record date**) being the fifteenth day before the due date for the relevant Interest Payment Date.

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

Whilst the Capital Securities are represented by the Global Certificate and such Global Certificate is registered in the name of a nominee for Euroclear and Clearstream, Luxembourg, the record date will instead be close of business on the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date (see "The Global Certificate – Payments").

6.2 Payments subject to Applicable Laws

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

6.3 No Commissions

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

6.4 Payment on Business Days

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

Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Securityholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

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

6.5 Partial Payments

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

6.6 Agents

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

(a) there will at all times be a Fiscal Agent, a Registrar and a Calculation Agent;

(b) so long as the Capital Securities are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

7. Redemption and Variation

7.1 No Fixed Redemption Date and Conditions for Redemption and Variation

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall only have the right to redeem, purchase or vary them in accordance with the following provisions of this Condition 7.

The redemption of the Capital Securities or variation of the Conditions, in each case pursuant to this Condition 7, is subject to the following conditions:

(a) the prior approval of the Financial Regulator;

(b) the requirement that at the time when the relevant notice of redemption or variation is given and immediately following any redemption or variation (as applicable), the Guarantor is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and

(c) (in the case of Conditions 7.3 or 7.4 only) the requirement that the circumstance that entitles the Issuer to exercise its right of redemption or variation is a change of law, published practice or regulation (including in the case of Condition 7.3, Applicable Regulatory Capital Requirements) in the State of Kuwait or, in the case of Condition 7.4, of a Relevant Jurisdiction or a change in the interpretation or application of such law, published practice or regulation by any court or authority entitled to do so which change becomes, or would become, effective on or after 7 April 2015,

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

7.2 Redemption at the Option of the Issuer

Subject to Condition 7.1, the Issuer may, having given:

(a) not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14; and

(b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in paragraph 7.2(a),

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Capital Securities on 9 April 2021 (the **First Call Date**) or on any Interest Payment Date after the First Call Date at their outstanding principal amount together with interest accrued to but excluding the date of redemption.

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

7.3 Redemption or Variation for Regulatory Reasons

Subject to Condition 7.1, the Issuer may, if a Capital Event has occurred and is continuing, having given:

(a) not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14; and

(b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in paragraph 7.3(a),

(which notices shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Capital Securities at the Capital Event Early Redemption Amount; or (ii) vary the terms of the Capital Securities so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

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

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.3, the Issuer shall deliver to the Fiscal Agent a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that: (A) a Capital Event has occurred and is continuing as at the date of the certificate; (B) all other conditions precedent to the redemption or variation of the Capital Securities pursuant to this Condition 7.3 (other than the notice described in paragraph (a)) have been satisfied; and (C) in the case of a variation only, the Guarantor shall certify that, the varied Capital Securities are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments, and the Fiscal Agent shall accept the certificate without any further enquiry as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

A **Capital Event** is deemed to have occurred if the Guarantor is notified in writing by the Financial Regulator to the effect that (i) the outstanding principal amount of the Loan is excluded (in full or in part) from the consolidated Tier 1 Capital of the Guarantor; or (ii) the outstanding principal amount of the Capital Securities is excluded (in full or in part) from the consolidated Tier 1 Capital of the Guarantor (in each case, save where such non-qualification is only as a result of any applicable limitation on the amount of such capital).

7.4 Redemption or Variation for Taxation Reasons

Subject to Condition 7.1, if immediately before the giving of the notice referred to below a Tax Event has occurred, and that Tax Event cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it, the Issuer may at its option, having given:

(a) not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14; and

(b) notice to the Fiscal Agent not less than 15 days before the giving of the notice referred to in paragraph 7.4(a),

(which notices shall be irrevocable and shall specify the date fixed for redemption or variation (as applicable)) (i) redeem all (but not some only) of the Capital Securities at their outstanding principal amount together with interest accrued to but excluding the date of redemption; or (ii) vary the terms of the Capital Securities so that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

The Capital Regulations, as in force from time to time, may oblige the Guarantor to demonstrate to the satisfaction of the Financial Regulator that (among other things) the change in, or amendment to, the laws or regulations giving rise to a right to redeem pursuant to this Condition 7.4 was not reasonably foreseeable at the Issue Date.

Prior to the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 7.4, the Issuer shall deliver to the Fiscal Agent: (A) a copy of the opinion of a recognised independent tax adviser to the effect that a Tax Event has occurred; and (B) a certificate signed by two directors of the Issuer and an Authorised Signatory of the Guarantor stating that (i) the relevant Tax Event has occurred and cannot be avoided by the Issuer and/or the Guarantor, as the case may be, taking reasonable measures available to it; (ii) that all other conditions precedent to the redemption or variation of the Capital Securities pursuant to this Condition 7.4 (other than the notice described in paragraph (a)) have been satisfied; and (iii) in the case of a variation only, the Guarantor shall certify that, the varied Capital Securities are Qualifying Tier 1 Instruments and that the Financial Regulator has confirmed that they satisfy limb (a) of the definition of Qualifying Tier 1 Instruments, and the Fiscal Agent shall be entitled to accept the opinion and certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Securityholders.

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

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws, published practice or regulations of the Dubai International Financial Centre, the United Arab Emirates or any Emirate therein as applicable or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 7 April 2015; or

(ii) the Guarantor has or (if a demand was made under the Subordinated Guarantee) would become obliged to pay additional amounts as provided or referred to in Condition 9 or in the Subordinated Guarantee or the Guarantor has or will become obliged to make any such withholding, deduction or retention as is referred to in Condition 9 or in the Subordinated Guarantee from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Capital Securities, in either case as a result of any change in, or amendment to, the laws, published practice or regulations of the State of Kuwait or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, published practice or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective (or, in the case of application or official interpretation, is announced) on or after 7 April 2015,

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

7.5 Taxes upon Variation

In the event of a variation in accordance with Conditions 7.3 or 7.4, the Issuer will not be obliged to pay and will not pay any liability of any Securityholder to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Capital Securities **provided that** they become or, as appropriate, remain, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such Securityholder.

7.6 Purchases

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

7.7 Cancellations

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

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

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

For the avoidance of doubt, following any Write-down of the Capital Securities in accordance with this Condition 8: (a) references in these Conditions to the **principal amount** or **outstanding principal amount** of the Capital Securities shall be construed accordingly; (b) the principal amount so written down will be cancelled and interest will continue to accrue only on the outstanding principal amount following such reduction, subject to Conditions 5.6 and 5.7 as described herein; and (c) the principal amount so written down may not be restored under any circumstances, including where the relevant Non-Viability Event is no longer continuing.

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

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

9. Taxation

9.1 Payment without Withholding

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

(a) held by or on behalf of a holder which is liable to the Taxes in respect of the Capital Security by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Capital Security; or

(b) where such withholding, deduction or retention is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) held by or on behalf of a holder who would have been able to avoid such withholding, deduction or retention by presenting the relevant Capital Security to another Paying Agent in a Member State of the European Union;

(d) where the relevant Capital Security is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day (as defined in Condition 6.4); or

(e) where such withholding or deduction is required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or official interpretations thereof.

9.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 14; and

(b) **Relevant Jurisdiction** means the United Arab Emirates (including the Dubai International Financial Centre) or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or the State of Kuwait or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor) or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Capital Securities.

9.3 Additional Amounts

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

10. On-Loan Agreement

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

11. Prescription

Subject to applicable law, claims in respect of principal and interest will become prescribed unless made within 10 years from the Relevant Date, as defined in Condition 9.

12. Enforcement Event

12.1 Enforcement Event

An Enforcement Event shall occur if:

(a) default is made in the payment of any principal or interest due under the Capital Securities or any of them and, in the case of interest only, the default continues for a period of five days (save, in the case of interest where such failure occurs solely as a result of the occurrence of a Non-Payment Event or a Non-Payment Election);

(b) default is made in any payment due under the Subordinated Guarantee of the Capital Securities and the default continues for a period of 14 days; or

(c) any one or more of the following events shall occur and be continuing:

   (i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution of Securityholders; or

   (ii) any event occurs which under the laws of the the Dubai International Financial Centre or the State of Kuwait or any other jurisdiction has an analogous effect to any of the events referred to in paragraph (i) above.

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

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

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

12.2 No Other Remedies

No remedy against the Issuer or the Guarantor other than petitioning for the winding up or liquidation of the Guarantor and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor shall be available to the Securityholders whether for the recovering of amounts owing in respect of the Capital Securities or in respect of any breach by the Issuer or the Guarantor of any other obligation, condition or provision binding on it under the Capital Securities or the Subordinated Guarantee.

13. Replacement of Certificates

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

14. Notices

14.1 Notices to the Securityholders

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

14.2 Notices from the Securityholders

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

15. Meetings of Securityholders and Modification

15.1 Meetings of Securityholders

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or the Subordinated Guarantee or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Securityholders holding not less than one-tenth of the aggregate outstanding principal amount of the outstanding Capital Securities. The quorum at any meeting for passing an Extraordinary Resolution will be one or more Persons present holding or representing more than half of the aggregate outstanding principal amount of the Capital Securities for the time being outstanding or, at any adjourned meeting, one or more Persons present whatever the principal amount of the Capital Securities held or represented by him or them, except that Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Securityholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one-third of the aggregate outstanding principal amount of the outstanding Capital Securities form a quorum. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, whether or not they are present at the meeting.

In addition, a resolution in writing signed by or on behalf of all Securityholders who for the time being are entitled to receive notice of a meeting of Securityholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

15.2 Modification

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

16. Further Issues

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

17. Currency Indemnity

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

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

18. Governing Law and Dispute Resolution

18.1 Governing Law

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

18.2 Arbitration

Subject to Condition 18.3, any dispute, claim, difference or controversy arising out of, related to, or having any connection with the Capital Securities or the Subordinated Guarantee (including any dispute regarding the existence, validity, interpretation, performance, breach or termination of the Capital Securities or the Subordinated Guarantee or the consequences of the nullity of any of them or a dispute relating to any non-contractual obligations arising out of or in connection with them) (a **Dispute**) shall be referred to and finally resolved by arbitration in accordance with the LCIA Arbitration Rules (the **Rules**), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

(a) the seat of arbitration shall be London;

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

(c) the language of the arbitration shall be English.

18.3 Option to Litigate

Notwithstanding Condition 18.2 any Securityholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer and the Guarantor:

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If such notice is given, the Dispute to which such notice refers shall be determined in accordance with Condition 18.5 and, subject as provided below, any arbitration commenced under Condition 18.2 in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

18.4 Termination of Arbitral Proceedings

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the relevant Securityholder(s) must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(a) the validity of any act done or order made by the arbitrator or by the court in support of that arbitration before his appointment is terminated;

(b) his entitlement to be paid his proper fees and disbursements; and

(c) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

18.5 Provisions relating to Judicial Proceedings

In the event that a notice pursuant to Condition 18.3 is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and the Guarantor submits to the exclusive jurisdiction of such courts;

(b) each of the Issuer and the Guarantor has agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 18.5 is for the benefit of the Securityholders only. As a result, and notwithstanding paragraph (a) above, the Securityholders may take proceedings relating to a Dispute (**Proceedings**) in any other courts with jurisdiction. To the extent allowed by law the Securityholders may take concurrent Proceedings in any number of jurisdictions.

18.6 Appointment of Process Agent

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

18.7 Waiver of Immunity

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

18.8 Other Documents

Each of the Issuer and the Guarantor has in the Agency Agreement and the Subordinated Guarantee submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

19. Contracts (Rights of Third Parties) Act 1999

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

20. Definitions

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

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

Basel III means the reforms to the international regulatory capital framework issued by the Basel Committee as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for international credit institutions (including guidance on the eligibility criteria for tier 1 capital instruments and tier 2 capital instruments).

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

Basel Committee means the Basel Committee on Banking Supervision.

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

Capital Event Early Redemption Amount means 101 per cent. of the outstanding principal amount of the Capital Securities, together with interest accrued to but excluding the date of redemption.

Capital Regulations means, at any time, the regulations, requirements, guidelines and policies relating to capital adequacy then in effect in the State of Kuwait, including those of the Financial Regulator, including, without limitation, the Instructions.

Code means the U.S. Internal Revenue Code of 1986, as amended.

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

Distributable Funds means the amount of the Guarantor's consolidated retained earnings, reserves and profits (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent consolidated financial statements of the Guarantor.

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

First Reset Date has the meaning given to it in Condition 5.

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

Interest Payment Amount means the amount of interest due on each Capital Security on an Interest Payment Date (assuming, for this purpose, that a Non-Payment Event has not occurred and a Non-Payment Election has not been made with respect to such amount of interest).

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

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

Issue Date means 9 April 2015.

Junior Obligations means all claims of the holders of Ordinary Shares of the Issuer or the Guarantor, as the case may be, and all (in the case of the Guarantor only) payment obligations of the Guarantor in respect of its Common Equity Tier 1 Capital.

Margin means 4.119 per cent. per annum.

Non-Payment Election has the meaning given to it in Condition 5.7.

Non-Payment Event has the meaning given to it in Condition 5.6.

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

Non-Viability Event Write-down Date shall be the date on which the Write-down will take place as specified in the Non-Viability Notice, which date shall be no later than 10 Business Days after the date of the Non-Viability Notice.

Non-Viability Notice means the notice given by the Issuer to Securityholders in accordance with Condition 14 in connection with the occurrence of a Non-Viability Event.

Obligations has the meaning given to it in Condition 3.

Ordinary Shares means (a) the ordinary shares of the Issuer or (b) the common shares of the Guarantor, as the case may be.

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

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

Qualifying Tier 1 Instruments means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) issued directly or indirectly by the Guarantor that:

(a) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Tier 1 Capital;

(b) have terms and conditions not materially less favourable to a Securityholder than the Capital Securities (as reasonably determined by the Guarantor (**provided that** in making this determination the Guarantor is not required to take into account the tax treatment of the new instrument in the hands of all or any holders of the Capital Securities, or any transfer or similar taxes that may apply on the acquisition of the new instrument) **provided that** a certification to such effect of an Authorised Signatory of the Guarantor shall have been delivered to the Fiscal Agent prior to the variation of the terms of the instruments);

(c) will constitute direct or indirect (whether by a guarantee or equivalent support undertaking) obligations of the Guarantor;

(d) rank, on a winding up of the Guarantor, at least *pari passu* with the obligations of the Guarantor in respect of the Subordinated Guarantee as specified in Condition 4.2;

(e) have at least the same outstanding principal amount and interest payment or distribution dates as the Capital Securities and at least equal interest or distribution rate or rate of return as the Capital Securities;

(f) are listed on the same stock exchange as the Capital Securities;

(g) have, to the extent such payment is not cancelled, the same claim to accrued but unpaid distributions;

(h) (where the instruments are varied prior to the First Call Date) have the same first call date as the Capital Securities;

(i) have the same optional redemption dates as the Capital Securities, save that any right to redeem the Capital Securities prior to the sixth anniversary of the Issue Date may be disapplied if such right to redeem would cause a Capital Event; and

(j) preserve the obligations of the Issuer and the Guarantor (as applicable) as to amounts payable upon any redemption and the ranking of any claims in a winding-up or dissolution of the Issuer or the Guarantor (as applicable) under the Capital Securities, and which may include such technical changes as necessary to reflect the requirements of Tier 1 Capital under the Capital Regulations then applicable to the Guarantor (including, without limitation, such technical changes as may be required in the adoption and implementation of Basel III).

Reset Date means the First Reset Date and every date that falls six, or a multiple of six, years after the First Reset Date.

Reset Determination Date means the third Business Day before the commencement of the Reset Period for which the rate will apply.

Reset Interest Rate means, in respect of any Reset Period, the rate per annum which is determined by the Calculation Agent to be the aggregate of the Margin and the Swap Rate calculated on the relevant Reset Determination Date.

Reset Period means the period from and including the First Reset Date to but excluding the next Reset Date, and each successive period from and including a Reset Date to but excluding the next succeeding Reset Date.

Senior Obligations means all unsubordinated payment obligations of the Issuer or the Guarantor, as the case may be, and all subordinated payment obligations (if any) of the Issuer or the Guarantor, as the case may be, to which the Capital Securities (in the case of the Issuer) or the Guarantor's payment obligations under the Subordinated Guarantee (in the case of the Guarantor) are expressed to rank junior.

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

Swap Rate means the mid-swap rate for U.S. dollar swap transactions with a maturity of six years displayed on Reuters 3000 page "ISDAFIX1" (or such other page as may replace that page on

Bloomberg, or such other service as may be nominated by the Person providing or sponsoring information appearing there for the purposes of displaying comparable rates) at or around 11.00 a.m. (New York time) on the Reset Determination Date. If the correct mid-swap rate does not appear on that page, the six year U.S. dollar mid-swap rate shall instead be determined by the Calculation Agent on the basis of the arithmetic mean of quotations provided by the principal office of each of four major banks in the U.S. dollar swap market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the Reset Determination Date to participants in the U.S. dollar swap market for a six-year period, expressed as a percentage and rounded, if necessary, to the nearest 0.0001 per cent. (0.00005 per cent. being rounded upwards).

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

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

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

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

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

Write-down means:

(a) the Capital Securities shall be cancelled (in the case of a write-down in whole) or written-down in part on a *pro rata* basis (in the case of a write-down in part) as determined by the Issuer or Guarantor in accordance with the prevailing Capital Regulations; and

(b) all rights of any Securityholder for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event) shall, as the case may be, be cancelled or written-down *pro rata* among the Securityholders and, in each case, will not be restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date and even if the Non-Viability Event has ceased.

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

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

THE GLOBAL CERTIFICATE

The Global Certificates contain the following provisions which apply to the Capital Securities in respect of which they are issued whilst they are represented by the Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 6 below.

1. ACCOUNTHOLDERS

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

2. CANCELLATION

Cancellation of any Capital Security following its redemption or purchase by the Issuer, the Guarantor or any of the Guarantor's other subsidiaries will be effected by a reduction in the aggregate principal amount of the Capital Securities in the register of Securityholders.

3. PAYMENTS

Payments of principal and distributions in respect of Capital Securities represented by the Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Capital Securities, against presentation and surrender of the Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holders of the Global Certificate for such purpose. Such payments will be made to the holder of the Global Certificate at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxemburg are open for business) before the relevant due date.

Distributions of amounts with respect to book-entry interests in the Capital Securities will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be entered by or on behalf of the Registrar in the Register and shall be *prima facie* evidence that payment has been made.

4. NOTICES

So long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 14 (*Notices*). Any such notice shall be deemed to have been given to the Securityholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Capital Securities held by a Securityholder are represented by a Global Certificate, notices to be given by such Securityholder may be given by such Securityholder (where applicable) to the Registrar through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Registrar and Euroclear and Clearstream, Luxembourg may approve for this purpose.

5. REGISTRATION OF TITLE

The Registrar will not register title to the Capital Securities in a name other than that of the registered holder of the Global Certificate for a period of seven calendar days preceding the due date for any payment of principal or distributions in respect of the Capital Securities.

So long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is registered in the name of a nominee for Euroclear and Clearstream, Luxembourg, the record date will be close of business on the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date.

6. TRANSFERS

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

USE OF PROCEEDS

The proceeds from the issue of Capital Securities will be used by the Issuer to finance the Loan to the Bank pursuant to the On-Loan Agreement (each as defined in the Conditions) in a form which meets or exceeds the requirements of Tier 1 Capital under the Capital Regulations (as defined in the Conditions), which will be used by the Bank to increase its Tier 1 Capital for the purpose of increasing its capital adequacy and for its general corporate purposes.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated in the Dubai International Financial Centre on 15 March 2015 as a special purpose company under the Companies Law, DIFC Law No. 3 of 2006 and the Special Purpose Company Regulations and with registered number 1797.

Registered office

The Issuer's registered office is c/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, P.O. Box 506734, Dubai, United Arab Emirates, and its telephone number is +971 4511 4200.

Business of the Issuer

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

Administration

Maples Fund Services (Middle East) Limited acts as the corporate service provider of the Issuer (in such capacity, the **Corporate Service Provider**). The office of the Corporate Service Provider serves as the general business office of the Issuer. Through the office, and pursuant to the terms of a corporate services agreement dated 19 March 2015 entered into between the Issuer and the Corporate Service Provider (the **Corporate Services Agreement**), the Corporate Service Provider has agreed to perform in the United Arab Emirates and/or such other jurisdiction as may be agreed by the parties from time to time various management functions on behalf of the Issuer and the provision of certain clerical, administrative and other services until termination of the Corporate Services Agreement. The Issuer and the Corporate Service Provider have also entered into a registered office agreement (the **Registered Office Agreement**) for the provision of registered office facilities to the Issuer. In consideration of the foregoing, the Corporate Service Provider will receive various fees payable by the Issuer at rates agreed upon from time to time, plus expenses.

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

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

The Corporate Service Provider's principal office is Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, PO Box 506734, Dubai, United Arab Emirates.

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

Directors

The directors of the Issuer are:

Name	Principal Occupation
Aaron Bennett	Vice President of Maples Fund Services (Middle East) Limited
Andrew Millar	Regional Head of Fiduciary, Middle East of Maples Fund Services (Middle East) Limited

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

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

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

The business address of the directors of the Issuer is C/o Maples Fund Services (Middle East) Limited, Office 616, 6th Floor, Liberty House, Dubai International Financial Centre, PO Box 506734, Dubai, United Arab Emirates.

Secretary

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

Share capital

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

DESCRIPTION OF THE GROUP

OVERVIEW

The Bank, which along with its subsidiaries is referred to as the Group and which is the ultimate holding company within the Group, was the first local bank and the first shareholding company to be established in Kuwait. The Group is the leading banking group in Kuwait in terms of assets, deposits and customer loans and advances and has significant market shares in customer deposits, Kuwaiti consumer bank customers and consumer credit card usage and a dominant market share in the foreign corporates segment and trade finance. It is the only banking group in Kuwait to have access to both the conventional and Islamic banking markets.

As at 31 December 2014, the Group's total assets were KD 21,784 million and its equity attributable to shareholders of the Bank was KD 2,653 million.

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

The Group offers its clients a wide range of banking and financial services through the largest branch network in Kuwait, comprising 66 branches, a network of automated teller machines (**ATMs**) and point of sale (**POS**) terminals, tele-banking, internet banking and mobile banking.

As at 31 December 2014, the Group's customer loan portfolio was KD 11,909 million and its aggregate customer deposits and deposits from financial institutions were KD 17,965 million. In 2014, the Group's profit for the year was KD 274 million compared to KD 252 million in 2013 and the Group's profit attributable to shareholders of the Bank for 2014 was KD 262 million compared to KD 238 million for 2013.

As at 31 December 2014, the Group's total and tier 1 capital adequacy ratios, calculated in accordance with Basel III methodology adopted by the CBK, were 14.5 per cent. and 13.3 per cent., respectively, and its leverage ratio, calculated in accordance with CBK requirements, was 7.8 per cent.

The Bank has been listed on the KSE since 29 September 1984. Its total market capitalisation as at 31 December 2014 was KD 4.3 billion.

The Bank's registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait and its telephone number is +965 2242 2011. Its commercial registration number with the Kuwaiti Ministry of Commerce is 8490.

HISTORY

The Bank was incorporated in Kuwait by an Amiri decree on 19 May 1952 (Amiri Decree dated 19 May 1952 permitting the foundation of National Bank of Kuwait) and commenced business on 15 November 1952. It is regulated by the CBK.

The Bank was the first private indigenous bank in Kuwait and the Gulf region. The Bank focused on the Kuwaiti market following its establishment and has survived several crises, including the Souk Al Manakh (Kuwait's informal stock market) crash and the Iraqi invasion in 1990. The Bank played a vital role in rebuilding the Kuwaiti economy following the liberation of Kuwait in 1991.

The Bank started its expansion outside Kuwait in the 1980s by opening full service branches in key international (New York, London, Paris, Geneva and Singapore) and regional (Bahrain and Lebanon) centres to capture investment and trade flows with Kuwait and to service Kuwaiti customers and provide convenient and secure locations for their deposits. In 2004, the Bank took the strategic decision to expand its presence in the MENA region in markets which it viewed as offering high growth potential. The Bank accordingly made a series of acquisitions in Qatar, Iraq, Egypt and Turkey and established itself organically in Jordan, Saudi Arabia (Jeddah) and, most recently, in the United Arab Emirates (Dubai and Abu Dhabi).

Following the political instability in several countries in the MENA region, the Group's strategy focused on growing its operations in some of the GCC countries, which were more politically stable and had strong economic fundamentals. As part of this strategy, the Group opened its Abu Dhabi branch in 2013.

In 2009, the Group acquired a relatively small stake in Boubyan Bank. Following several additions to its shareholding between 2009 and 2012, the Group's ownership reached its current level of 58.4 per cent., and Boubyan Bank became a fully consolidated subsidiary of the Group in 2012. Boubyan Bank, a bank offering exclusively Islamic products and services, offers the Group a significant opportunity to grow its balance sheet, diversify its income sources and strengthen its market position in the Kuwaiti market as the Group is the only financial institution in Kuwait to offer both conventional and Islamic banking.

The Bank's shares were first listed on the KSE in 1984 and, as at 31 December 2014, no shareholder held more than 5 per cent. of the Bank's share capital.

STRATEGY

The Group's strategy focuses on defending and growing its leadership position in Kuwait whilst also diversifying its business geographically (particularly in the GCC) and by products offered.

Defend and grow leadership position in Kuwait

The Group's overall strategy in its domestic market is to maintain excellence and its market leadership position in the provision of banking services, to leverage its strong financial position to expand its existing market shares in loans, customer deposits and project and trade financing and to maintain discipline in managing both risk and costs. Within its core domestic product groups of corporate, consumer and private banking, the Group intends to implement the strategy as follows:

Corporate banking

Within the corporate banking sector in Kuwait, the Group's aims include:

- remaining the primary banker for a majority of the leading local companies whilst also continuing to be an active participant in the mid-market sector;
- remaining the bank of choice for foreign companies actively operating in Kuwait and continuing to serve at least 75 per cent. of those companies; and
- maintaining its current market share in trade finance which the Bank believes is in excess of 30 per cent.

The Group intends to achieve these aims by offering differentiated services to its corporate clients, leveraging the different services provided throughout the Group, expanding its coverage model and broadening the range of products and services offered. The Group's strategy centres around being at the forefront of large scale Kuwaiti government projects, as it believes that its large capital base, high credit ratings and international presence provide it with an advantage over other Kuwaiti banks when competing for these projects or when seeking to raise funds for the purposes of financing these projects. The Group's growth strategy also includes strengthening its leadership position among large Kuwaiti corporates and increasing its penetration among middle market companies through targeted marketing and building new relationships. The Group focuses on strengthening customer relationships at all levels of the corporate banking business and is in the process of enhancing its corporate online service through the provision of online trade finance services and establishing a cash management proposition that will be competitive with the cash management services currently offered by international banks. Within corporate banking, the Group also targets cost containment and staff efficiencies whilst investing in retaining and recruiting new talent and developing its IT platform.

Notwithstanding this growth strategy, the Group also intends to maintain asset quality with a particular emphasis on credit control, risk management and ensuring an effective corporate governance framework.

Consumer banking

Within the consumer banking sector in Kuwait, the Group's aims include:

- maintaining its leadership position as evidenced by the highest loan and credit card penetration among conventional banks in Kuwait and the highest proportion of Kuwaiti customers among all Kuwaiti banks, based on the Group's internal data and CBK reports for the Kuwaiti banking system;
- maintaining its focus on the delivery of a superior customer service experience, with its latest overall customer satisfaction index being 88 per cent. in 2014; and
- achieving the lowest cost of funds among Kuwaiti conventional banks.

The Group intends to expand its consumer customer base by focusing on profitable consumer segments such as the affluent and mass affluent segments and by attracting new clients such as small and medium sized enterprises (**SMEs**). To assist the Kuwait government in achieving its social objective, the Group intends to partner with the Kuwait SME Fund in granting credit facilities to SMEs. It has also developed innovative multi-channel distribution solutions, including new internet, mobile banking and call centre services and is focusing on improving cross-selling and product penetration by using the latest available tools and technologies.

The Group intends to increase its focus and reach on digital marketing, including social media, to enhance customer satisfaction and meet demand. The Group also intends to capitalise on its brand equity by cascading the NBK corporate brand down to the consumer banking level and developing a consistent level and form of communication across NBK consumer banking product and service campaigns.

Private banking

Within the private banking sector in Kuwait, the Group's aims include:

- continuing to provide a unique proposition to its high net worth clients in collaboration with NBK Capital and the Group's international network;
- leveraging the wealth management expertise of its private bank subsidiary, NBK Banque Privée (Suisse) S.A., in Geneva through which its customers gain access to leading international funds and otherwise broadening its product portfolio to accommodate the growing needs of its clients;
- providing a high quality service through its team of more than 30 experienced private bankers; and
- leveraging its strong brand to acquire new clients and retain current clients.

Geographic and product and service diversification

The Group's geographic and product and service diversification strategy involves expanding its regional presence, strengthening the Islamic banking franchise and building a leading regional investment bank.

Expanding regional presence

The Group's geographic diversification strategy is to leverage its fundamental strengths and capabilities, including its international reach and strong relationships within the MENA region, to build a regional platform and support growth in key markets, such as certain of the other GCC countries and Egypt. In particular, the Group is focusing on markets which it has identified as having long-term potential through a combination of high-growth economies, positive demographic trends and the ability for the Group to exploit one or more competitive advantages, such as existing or new synergies and the ability to cross-sell other Group products and services.

When expanding its regional presence, the Group intends to:

- leverage its strong reputation and brand name by ensuring standardisation and consistency across all of its markets;

- adopt a flexible business model so that it can easily adapt to changing trends and conditions in its different markets;
- deliver high standards of consistent, reliable and responsive service in all of its markets; and
- maintain rigorous risk management discipline and governance, as well as a unified compliance process, in all markets.

Establishing an Islamic franchise

Having first acquired a minority shareholding in Boubyan Bank in 2009, in 2012 the Group increased its shareholding to 58.4 per cent. and Boubyan Bank was consolidated as a subsidiary for accounting purposes since 31 July 2012. Boubyan Bank is a relatively small Islamic bank, with estimated market shares of total banking sector assets and customer deposits in Kuwait of 4.4 per cent. and 5.2 per cent., respectively, at 31 December 2014.

The Group's strategy in relation to Boubyan Bank is to differentiate it from other Islamic banks in Kuwait through a clear focus on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths.

Based on financial statements published by Kuwaiti banks:

- as at 31 December 2014, Islamic banks accounted for 33 per cent. of total Kuwaiti bank assets and 35 per cent. of total Kuwaiti bank deposits in Kuwait; and
- over the five years to 31 December 2014, asset growth among Kuwaiti Islamic banks has averaged 11 per cent. compared to 9 per cent. asset growth for Kuwaiti conventional banks.

Building a leading regional investment bank

The Group's strategy in relation to its investment banking and asset management business is to establish the business as a leading regional investment banking, asset management, brokerage and research operation servicing both existing Group clients and acquiring new clients. NBK Capital intends to focus on increasing its assets under management by broadening its suite of products to meet market demand and investing in technology and human resources to complement its existing product base. In addition, the Group plans to expand NBK Capital's distribution network.

STRENGTHS

The Group benefits from a number of business strengths. In particular:

Largest banking group in Kuwait with a dominant market position

As at 31 December 2014, the Group had total assets of KD 21,784 million, total customer loans and advances of KD 11,909 million and total customer deposits of KD 11,260 million, making it the largest banking group in Kuwait on all three metrics. The Group believes that it has the highest lending limit among Kuwaiti conventional banks. It also has the largest and one of the most diversified distribution networks within Kuwait. The Group's distribution network is described under "*—Reporting segments—Consumer banking—Distribution channels*". The Group also believes that it has significant market shares in Kuwaiti consumer banking customers and consumer credit card usage and a dominant market share in the foreign corporates segment and trade finance.

Only banking group in Kuwait to provide both conventional and Islamic banking

Following its consolidation of Boubyan Bank in 2012, the Group is the only banking group in Kuwait to offer both conventional and Islamic banking services. As discussed under "*Strategy—Geographic and product and service diversification—Establishing an Islamic franchise*", Boubyan Bank is focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths.

A strong regional and international network

Within the MENA region, the Bank's subsidiary, National Bank of Kuwait – Egypt S.A.E., operates 39 branches in Egypt while the Bank's subsidiaries in Iraq, Credit Bank of Iraq S.A., and Lebanon, National Bank of Kuwait (Lebanon) S.A.L., operate 14 and six branch networks, respectively. The Bank itself has two branches in Bahrain, three in Jordan, one in Saudi Arabia and two in the United Arab Emirates and an associated company, Turkish Bank A.S., has 19 branches in Turkey, whilst Boubyan Bank has investments of between 20 and 34 per cent. in associated companies in Indonesia, the United Kingdom and Sudan.

Internationally, the Bank has subsidiaries in London, National Bank of Kuwait (international) plc, and Geneva, NBK Banque Privée (Suisse) S.A., branches in Paris, New York and Singapore and a representative office in Shanghai.

Strong investment banking capability

The Group conducts its investment banking and asset management business through its subsidiary, Watani Investment Company K.S.C.C. (known as **NBK Capital**). In addition, brokerage services are conducted through the Bank's brokerage subsidiary, Watani Financial Brokerage Co. K.S.C. The Group believes that each business unit within NBK Capital has unique strengths that are specific to that segment. The asset management team benefits from the Group's strong distribution network and its own strong track record. The brokerage and research team provides high quality and broad company coverage as well as professional execution to its clients. The investment team's strong alternative investment platform and fund raising capabilities differentiate it from other similar teams in Kuwait. In addition, the investment banking team benefits from its execution and sector expertise and the ability to offer its services to the Group's large client base. See "*Strategy—Geographic and product and service diversification— Building a leading regional investment bank*".

Stable shareholder base and strong management team

The Bank was established in 1952 by a group of leading Kuwaiti merchants and it has retained the same core shareholder base since that time. The Group believes that it has a strong and stable Board of Directors and a long-serving executive team with a strong track record in Kuwait. Further details of the Group's management are set out under "*Management and employees—Management*".

Sound and consistent financial performance

The Group has a long history of profitability and remained profitable throughout the global financial crisis. Between 2009 and 2014, the Group's operating surplus (being its operating profit before provisions for credit losses and impairment losses) grew at a compound annual growth rate (**CAGR**) of 5.7 per cent., its total assets grew at a CAGR of 11.0 per cent. and equity attributable to shareholders of the Bank grew at a CAGR of 7.8 per cent. In addition, the Group benefits from low cost funding due to its strong liquidity position and believes that its asset quality is strong, as evidenced by its relatively low levels of non-performing loans.

High credit ratings and among the top brand values regionally

The Group has one of the highest credit ratings in the MENA region and internationally, with stable outlook ratings of Aa3 from Moody's, A+ from Standard and Poor's and AA- from Fitch. In addition, the NBK brand is well-recognised regionally. The Group has consistently been ranked among the 50 safest banks in the world by Global Finance and, in 2015, was named as the most valuable banking brand in Kuwait and among the top 10 in the Middle East by Brand Finance, with a brand value exceeding U.S.$1.0 billion at 31 December 2014.

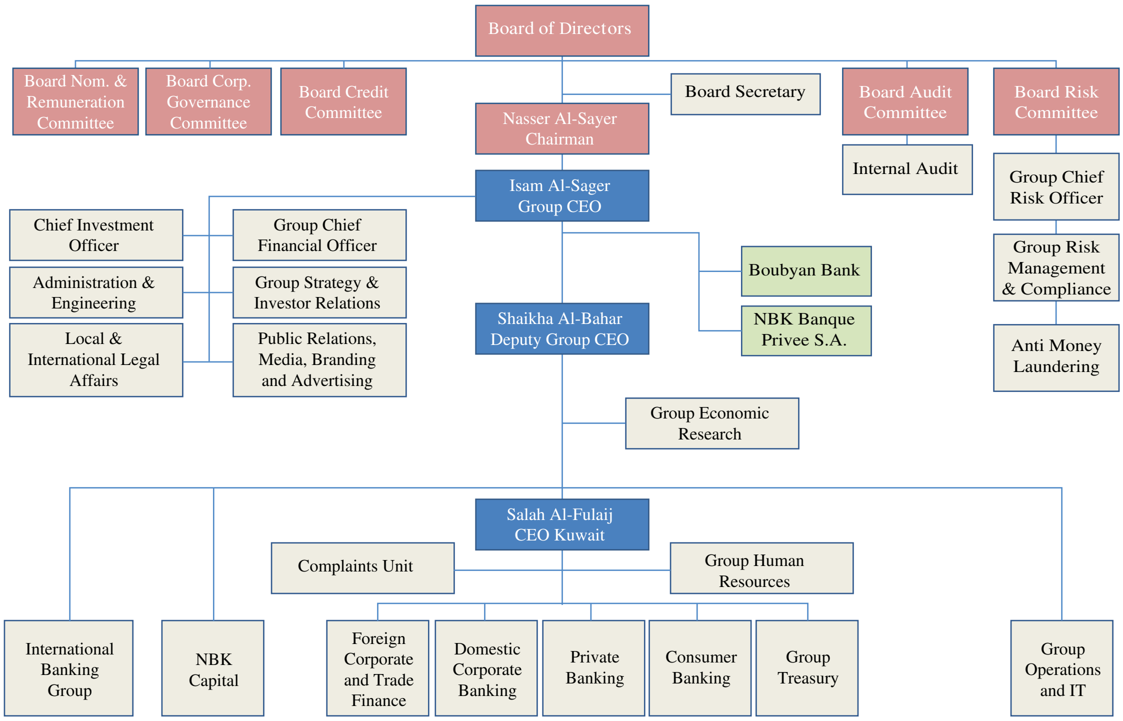
CAPITAL STRUCTURE AND SHAREHOLDERS

As at 31 December 2014, the Bank's share capital comprised 4,799,731,131 authorised, issued and fully paid ordinary shares of KD 0.1 each, giving it a share capital of KD 480 million.

The Group believes that it benefits from a strong shareholder base, with the Bank's original founding families still controlling the majority of its share capital.

ORGANISATIONAL STRUCTURE OF THE GROUP

The chart below illustrates the current organisational structure of the Group.



REPORTING SEGMENTS

The Group currently operates through six segments for financial reporting purposes:

- **Consumer and private banking.** Consumer banking provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange, credit facilities to SMEs and other branch-related services. Private banking provides customised banking services to high net worth individuals;
- **Corporate banking,** which provides a comprehensive product and service offering to business and corporate customers, including lending, deposit-taking, trade finance, foreign exchange and advisory services;
- **Investment banking and asset management.** Investment banking provides capital market advisory services. Asset management provides wealth management, portfolio and funds management, custody, brokerage and research services;
- **Islamic banking.** Islamic banking represents the financial results of Boubyan Bank, the Group's Islamic banking subsidiary;
- **Group centre,** which includes treasury, investments and other defined Group activities. Treasury provides treasury services to its clients and is also responsible for the Group's liquidity. Group centre also includes any residual in respect of transfer pricing and inter-segment allocations; and
- **International,** which comprises the activities of all branches, subsidiaries and associates of the Group outside Kuwait.

The table below is derived from note 3 to the 2014 Financial Statements and shows certain financial information in relation to each reporting segment for each of 2014 and 2013.

	Consumer and private banking	Corporate banking	Investment banking and asset management	Islamic banking	Group Centre	International	Total
				(KD million)			
2014							
Net interest income	160	115	0.2	—	17	107	399
Net income from Islamic financing	—	—	—	70	—	—	70
Share of results of associates	—	—	—	(0.2)	—	8	8
Net operating income	214	156	26	81	31	154	661
Profit/(loss) for the year	**135**	**108**	**14**	**29**	**(85)**	**74**	**274**
Total assets	3,569	4,857	62	2,648	2,511	8,137	21,784
Total liabilities	3,835	2,045	8	2,347	2,272	8,408	18,914
2013							
Net interest income	153	123	0.2	—	24	89	388
Net income from Islamic financing	—	—	—	64	—	—	64
Share of results of associates	—	—	—	1	—	16	16
Net operating income	202	165	24	69	26	140	626
Profit/(loss) for the year	**115**	**102**	**13**	**13**	**(61)**	**70**	**252**
Total assets	3,390	4,503	63	2,192	2,275	6,177	18,600
Total liabilities	3,547	1,947	8	1,922	2,228	6,236	15,888

Consumer and private banking reporting segment

Consumer banking

The Group offers a wide range of consumer banking products and related services in Kuwait through its integrated distribution network, comprising branches, ATMs and other remote banking platforms. In addition, the Group has a direct sales force which markets its consumer products and services to its customers. The Group's consumer banking products include a range of consumer loans, deposits, cards, business banking for SMEs and wealth management services.

The Group intends to focus on customer service in its consumer banking business as a key differentiator. The Group annually measures and monitors its overall customer satisfaction as well as customer satisfaction with specific products and services offered. The Group has implemented proactive customer retention and loyalty programmes and has increased its operational efficiency through enhancing its technology platform and repositioning its alternative delivery channels as attractive, user-friendly and reliable alternatives to branch banking (see "*—Distribution Channels*" below).

In addition, the Group intends to increase its customer base by focusing on select segments, including the younger generation and mass affluent, as well as SMEs with a turnover of less than KD 1 million. At the same time, the Group aims to leverage its credit and risk infrastructure to expand its expatriate segment and offer new asset classes, including new types of unsecured lending. As at 31 December 2014, more than 90 per cent. of the Bank's customers in Kuwait were Kuwaiti nationals.

Private banking

The Group has offered wealth management services to its private banking clients since 1982. These services are customised to fit each client's risk tolerance and financial needs which are assessed by relationship managers on a quarterly basis. The Group's private banking services include fixed-income and money-market products, offshore services designed to preserve customers' capital without restricting capital growth and an extensive range of international banking products and services offered through the Group's international branches and subsidiaries, including NBK Banque Privée (Suisse) S.A.

The Group aims to establish strong relationships with its personal banking clients based on professional expertise, integrity, confidentiality and trustworthiness. Within the private banking business, the Group intends to continue to grow at a consistent pace by focusing on key objectives including:

- new client acquisition – over the eight years to 31 December 2014, the number of the Group's clients have grown at a compound annual growth rate of 7.3 per cent.;
- increasing its share of wallet of existing clients – over the eight years to 31 December 2014, the Group's assets under management have grown at a compound annual growth rate of 8.3 per cent.; and
- building a global private banking offering by leveraging its presence in the UAE, Saudi Arabia, the United Kingdom, Lebanon and Egypt.

Distribution channels

The Group's principal distribution channels in Kuwait comprise:

- ***Branch network***: The Group has the largest branch network in Kuwait, with 66 branches across the country, and the largest ATM and customer deposit-machine network, with more than 240 machines. The Group operates a 24/7 self-service facility at its major branches where customers can conduct a range of banking services, such as cash deposits and withdrawals, balance enquiries and statement printing, ordering of cheque books, internet and telebanking access. The Group also recently opened its first 24/7 branch located at the Kuwait International Airport and intends to issue new debit cards instantly at all its branches before the end of the first quarter of 2015.
- ***Telebanking***: The Group introduced automated banking by telephone to its customers and opened its call centre in 1994. This call centre, which has been operated on a 24/7 basis since 2003, can be used by customers in Kuwait to conduct a variety of transactions, including reporting lost or stolen cards, performing account transfers and bill payments and making enquiries and complaints. The Group has recently extended this distribution channel to also serve as a telemarketing tool through which the Group sells products to customers directly or refers them to their channel of choice. In 2014, the Group's call centre handled approximately 1.65 million calls.
- ***Online banking***: The Group commenced offering online banking to its consumer banking customers in 1998 and, at 31 December 2014, had approximately 281,000 registered online banking customers with around 1.9 million transactions executed in 2014. The services provided to accountholders through the online banking platform include account balances, history and transaction detail enquiries, funds transfers, bill payments, online trading, foreign exchange and interest rate enquiries, online credit card applications, cheque book ordering and statement requests.
- ***Mobile banking***: Since 2011, the Group's customers have been able to use mobile banking services that provide regular account updates and SMS alerts to registered mobile phone users and through which they can conduct a large range of banking services, such as balance enquiries, bill payments, funds transfers, and statement and cheque book requests. The Group had approximately 76,000 registered mobile banking subscribers at 31 December 2014 with approximately 1.1 million transactions executed in 2014.
- ***Direct sales force***: The Group has the largest direct sales force in Kuwait including sales staff at car dealerships and sales staff located at key government ministries and strategic corporate clients. It has

recently expanded its direct sales force to focus on attracting persons entering employment by increasing its presence in key hiring locations in Kuwait.

- ***Bespoke private banking services at select branches***: The Group offers comprehensive financial solutions and customised private banking services at the Bank's head office branch and seven other branches in Kuwait. The Group continues to leverage its international network to offer private banking services to clients in Beirut, Cairo, Dubai, Geneva, London, Manama, New York and Paris. The Group seeks to maintain a high level of service quality through extensive and diverse training programmes and careful recruitment of its private banking employees. The Group aims to establish long-term relationships with its private banking clients.

Products and services

The Group offers its consumer banking customers a wide range of banking services, including:

- ***Deposits***: The Group has a complete range of deposit products, including current, savings and time deposit accounts. In addition it offers a draw account, named Al-Jawhara, which is non-interest bearing but features weekly, monthly and quarterly draws to allow customers to win cash prizes with a total of KD 2.2 million annually. In addition, there are various deposit products for young Kuwaitis and expatriate salaried customers. The Group is also developing bancassurance products in the form of long-term fixed savings plans (for example, for education or retirement) in order to enhance the maturity profile of its deposit base.

- ***Loans and credit cards***: The Group's loan products include consumer and instalment loans with repayment terms extending up to five years and 15 years, respectively. The Group also provides one of the widest ranges of Visa and MasterCard credit and debit cards in Kuwait and is currently the only bank in Kuwait offering Diners Club International cards. The Group's cards are aimed at different customer segments based on income and offer a range of benefits that vary based on the card type. Applications for loans and credit cards can be made through the Group's branch network, direct sales, telebanking or through the internet. Consistent with its credit risk management strategy, the Group prioritises attracting loan and credit card customers with good credit standing. Loan and credit card applicants are screened and credit limits are assessed according to the Bank's credit policy based on demographic and financial factors and the past credit behaviour of the customer in question, while ensuring strict adherence to relevant CBK regulations.

  The Group uses local and international merchant relationships, promotions, a credit card reward programme and other incentives in order to increase card usage and expenditure levels and to increase customer loyalty and retention. The Bank was the first bank in Kuwait to launch an automatic reward redemption programme based on card usage through point of service (**POS**) machines without the need of vouchers. The Group has also recently launched its Miles Loyalty Premium credit card which allows the customer to earn air miles and use them across 800 airlines and 150,000 hotels and to access more than 500 airport lounges.

- ***Business banking***: With a view to diversifying its consumer banking revenue, in 2013 the Group launched a business banking proposition focusing on servicing SMEs in Kuwait with an annual turnover of up to KD 1 million through its expanded network of dedicated branches. The Group has three business banking hubs established at strategic locations in Kuwait. The Group focuses on three priority sectors: SMEs engaged in importing, contracting and manufacturing; SMEs engaged in the domestic retail trading sector; and SMEs in typically high-margin service sectors, including the professional services industry. Each SME has an assigned relationship manager. A range of payment, account and foreign exchange services and, subject to credit approval, working capital, term finance and trade finance services tailored to meet the customer's needs are available to the Group's SME customers.

- ***Other services***: The Group's principal deposit and lending products are complemented by a range of more general consumer banking services, including bill payments, remittances, foreign exchange, safe deposit boxes and share custody, electronic funds transfer and online trading. In addition, the Group's consumer banking customers have access to a suite of investment products which are managed by its Group centre reporting segment. See "—*Group centre reporting segment—Investments*" below.

Corporate banking reporting segment

The Group offers its corporate clients a range of commercial banking products and services, including loans, overdrafts, trade finance (letters of credit and guarantees), online corporate cash management services, and a range of current and deposit accounts. Additionally, the corporate banking group works with other business units within the Group, such as Group centre and NBK Capital, to offer other services including foreign exchange, hedging products and corporate finance and advisory services.

The Group's corporate internet banking tool is known as Watani Online Corporate Banking. As at 31 December 2014, the Group had 2,419 active corporate online banking customers who generated 87,483 transactions in 2014 for a total volume of KD 5.2 billion.

The Group's corporate banking reporting segment comprises:

The domestic corporate banking group

This banking group caters to major Kuwaiti companies and is organised around units with specific industry expertise, principally:

- general trade and commerce, including the cars, electronics, consumer durables, food and clothing sectors;
- real estate development and contractors, including building materials;
- insurance;
- manufacturing, including in the food and drink, ship building, steel and metal fabrication, cement and clothing sectors; and
- services, including telecommunications, education, transport and logistics, healthcare and retail services.

The Group also has a unit dedicated to Kuwaiti companies with a multinational presence as well as a unit focused on the small and middle market segment.

The foreign corporate banking group

This banking group has two major business units: Foreign Contracting and Oil & Petrochemicals. Most of the business of these two units is driven by public-sector spending in the form of major infrastructure and oil and gas projects. Given its strong relationship with the Kuwait Petroleum Corporation (**KPC**) group, the Group believes that it is well placed to advise on, and provide financing to, high-value projects tendered by the KPC group, as well as major overseas investments made through KPC's operating entities, Kuwait Petroleum International Ltd and Kuwait Foreign Petroleum Exploration Company.

The trade finance division

This division uses its extensive knowledge of international trade to help corporate clients enhance their global competitiveness and reduce risk. The Trade Finance Division offers the Group's customers a wide range of services, including:

- letters of credit, including both inward and outward back-to-back, transferable, deferred payment, standby and revolving letters of credit;
- letters of guarantee, including bid bonds, performance, advance payment, retention, suppliers credit and contract guarantees;

- collections settled; and
- financing under letters of credit.

Investment banking and asset management reporting segment

The Group's investment banking and asset management reporting segment comprises the activities of NBK Capital. NBK Capital has over 170 professionals and operates from four centres: Kuwait, Dubai, Istanbul and Cairo. NBK Capital focuses on four primary lines of business:

- alternative investments, where it manages more than U.S.$750 million in 19 private equity and mezzanine investments, seeking mid-market growth and proactive value-creation across a variety of industry sectors;
- asset management, where it has U.S.$5.4 billion in assets under management in regional and international funds across various asset classes, including money market, Islamic leasing, global equity, global fixed-income and real estate;
- brokerage and research. NBK Capital's brokerage professionals are based in Kuwait and Egypt and offer brokerage services across key MENA region markets and major international markets and are supported by regional equity research analysts covering more than 70 companies; and
- investment banking, where it offers clients a range of investment banking services, such as debt and equity capital markets and mergers and acquisitions advice.

Islamic banking reporting segment

The Group's Islamic banking reporting segment comprises the activities of Boubyan Bank, in which the Bank currently owns 58.4 per cent. of the share capital.

The Group believes that its acquisition of a majority shareholding in Boubyan Bank offers new avenues for growth, diversification and enhancing its customer base by providing a wider variety of banking services. Since the acquisition, Boubyan Bank has experienced increased growth and profitability and has expanded its market share in a number of areas, including personal finance, customer deposits and credit card spend. The Group remains fully committed to maintaining the autonomy of Boubyan Bank.

Boubyan Bank's aspiration is to become one of the top five Islamic banks in the world. Its short-term strategy is to build on robust domestic foundations with a view to developing an international presence in the medium to longer term. In the domestic market, Boubyan Bank is currently targeting increased market share in both the consumer and the corporate segments.

In relation to its consumer banking operations, Boubyan Bank aims to expand its market share through focusing on private banking and affluent and mass affluent customers and has been working on positioning itself as the bank of choice for affluent customers. In particular, Boubyan Bank is emphasising improved customer experience, innovation in product offerings, efficient transactions and attracting top talent. Boubyan Bank is also building a comprehensive consumer banking platform in terms of distribution channels to achieve its consumer banking ambitions. Between 2009 and 2014, Boubyan Bank grew its branch network from 15 to 30 branches, more than doubled the number of ATMs and quadrupled its sales force. Along with expanding its footprint and distribution network Boubyan Bank's customer satisfaction ratings continue to be higher than the average for both Islamic and all Kuwaiti banks, all of which have contributed to its recent growth in profitability and its increased market shares.

In relation to its corporate operations, Boubyan Bank's main focus is to become the bank of choice for mid-size companies while continuing to capture market share in the larger company segment. Boubyan Bank aims to improve its offering in the corporate segment through innovation in products and services. In particular, it has introduced new products such as overdrafts and Istisna, and additional products such as Musharaka, factoring and equipment Ijarah are being developed. Further, Boubyan Bank continues to work on strengthening and improving its processes. For example, Boubyan Bank has introduced automated credit approvals to reduce approval times and also introduced new staff training and development programmes, new leadership programmes and a comprehensive performance management framework.

Group centre reporting segment

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

Treasury

The Group's treasury manages the Group's assets and liabilities and liquidity requirements under the supervision of the Assets and Liabilities Executive Committee (**ALEC**), which meets at least monthly to monitor and review all aspects of the Group's liquidity profile, asset and liability structure and internal and statutory ratio requirements. Cash-flow requirements as well as foreign exchange activities in each of the Group's locations are managed by the respective treasury of that location, under the supervision of Group treasury. Asset and liability management, including liquidity management, is managed by the Group treasury, in coordination with Group Market Risk.

In addition, the Group's treasury:

- manages the money market books and money market funding positions for the Group's own account to fund its domestic and international foreign-currency assets;
- undertakes a wide range of foreign exchange business, across both spot and forward markets, largely on behalf of the Group's customer base, and conducts a limited amount of proprietary foreign exchange trading within the constraints of what the Group considers to be prudent risk guidelines; and
- maintains a portfolio of Kuwaiti government treasury bills and bonds to meet relevant CBK requirements and to manage surplus domestic currency liquidity.

Investments

The Group's investment unit is responsible for managing its fixed income proprietary portfolio with the objective of realising income while minimising the risk of default. The unit combines a bottom-up fundamental credit-research-driven investment process with a top-down macro-economic analysis. The portfolio is diversified, investing in fixed income securities issued by emerging and developed markets' corporates and sovereigns. The securities are denominated in hard currencies and carry investment-grade ratings.

International reporting segment

The Group has a presence in eight countries in the MENA region in addition to Kuwait and six additional international markets, which the Group believes provides it with a diversified platform for sustainable growth in the future. The table below summarises the Group's international presence.

Location	Established or acquired	Branches	Legal structure (and percentage ownership at 31 December 2014)
International			
London	1983	2	Subsidiary (100.0%)
New York	1984	1	Branch
Geneva	1984	1	Subsidiary (100.0%)
Singapore	1984	1	Branch
Paris	1987	1	Branch
Shanghai	2005	1	Representative office
MENA region			
Bahrain	1987	2	Branch
Lebanon	1996	6	Subsidiary (85.5%)
Jordan	2004	3	Branch
Iraq	2005	14	Subsidiary (84.3%)
Saudi Arabia	2006	1	Branch
Egypt	2007	39	Subsidiary (98.5%)
UAE	2008	2	Branch

The Group's international operations are principally wholesale in nature although in certain locations, such as Egypt and Iraq, the Group also provides consumer banking services.

The Group has a presence in Turkey through its 34.3 per cent.-owned associate (Turkish Bank A.S.) and, through Boubyan Bank, the Group also has a presence in Indonesia and Sudan.

Within the international network, the Group is focusing on streamlining and, in some cases, reducing activities to improve efficiency and achieve long-term cost savings and productivity gains. These actions included limited branch and staff reductions in Lebanon, Jordan and Iraq in 2013 and 2014 and standardising and automating processes and upgrading IT infrastructure and distribution channels.

Within select locations in the MENA region, the Group is focusing on growing its corporate business in existing and new markets through attracting international and regional customers and exploiting its Kuwaiti relationships as well as growing its private banking business by building on its success in Kuwait. In its international locations, the Group's focus is on servicing its corporate customers who are active internationally and growing its business with international companies that are active in select MENA region markets.

Across the international banking business, the Group's approach is to leverage its existing capabilities, develop an integrated regional approach for corporate, consumer and private banking, capture revenue and cost synergies, enhance standardisation of its operating model and focus on establishing a robust risk management and governance model.

In the first quarter of 2015, the Group sold its 30 per cent. shareholding in International Bank of Qatar Q.S.C. as it did not believe that it would be able to increase its shareholding in the bank in the foreseeable future.

In the affluent GCC, the Group believes that it is well-positioned to leverage its presence for future growth. The Group currently operates in Abu Dhabi, Bahrain, Dubai and Jeddah, where it offers corporate clients and high net worth individuals a range of treasury and wholesale banking credit solutions, both conventional and Sharia'a-compliant, in addition to trade finance services and basic consumer banking services such as personal loans and the Bank's Thahabi account. The Group increased its presence in the GCC in 2013 by opening a new branch in Abu Dhabi and by extending online banking services to Bahrain and Dubai.

In recent years and reflecting a prolonged period of unrest in Egypt, the Group has not sought to expand the operations of its subsidiary, National Bank of Kuwait – Egypt S.A.E (**NBK Egypt**). However, as the outlook in Egypt has become more positive, supported by improving market sentiment and gradually improving macro-economic fundamentals, the Group has begun to implement a more aggressive execution plan in Egypt. The Group believes that Egypt could potentially become one of its most profitable markets in the MENA region, offering a significant opportunity for it to leverage its presence there. In 2014, the Group's Egypt network started operating under the NBK Egypt brand name.

The Group's operations in key international cities, such as Geneva, London, New York, Paris and Singapore, typically experience strong inflows of capital and deposits from high net worth individuals, financial institutions, oil companies, correspondent banks and government agencies.

COMPETITION IN KUWAIT

The Bank is the largest bank in Kuwait in terms of total assets, customer deposits and customer loans and advances according to annual reports for 2014 published by Kuwaiti banks.

The Kuwaiti banking sector comprises five indigenous conventional commercial banks (the Bank, Commercial Bank of Kuwait, Gulf Bank, Al-Ahli Bank of Kuwait and Burgan Bank) and branches of 12 other non-Kuwaiti conventional banks. In addition, a specialised bank (Industrial Bank of Kuwait) and five banks operating according to the provisions of Islamic Sharia'a (including the largest, Kuwait Finance House, and the Bank's subsidiary, Boubyan Bank) are also licensed to operate in Kuwait.

The tables below show rankings for the six largest Kuwaiti banks by total assets, by customer deposits and by customer loans and advances as at 31 December in each of 2014 and 2013.

	As at 31 December	
	2014	2013
	(KD million)	
Ranking by total assets[1]		
The Group	21,784	18,600
Kuwait Finance House	17,182	15,288
Burgan Bank	7,751	7,155
Gulf Bank	5,331	5,065
Commercial Bank of Kuwait	4,213	3,929
Al-Ahli Bank of Kuwait	3,499	3,193

Source: 2014 annual financial statements for each bank.

Note:

(1) Total assets are based on consolidated figures and include international assets.

As at 31 December 2014, the Group's total assets represented 33.2 per cent. of the total assets of the Kuwaiti commercial banking sector.

	As at 31 December	
	2014	2013
	(KD million)	
Ranking by customer deposits[1]		
The Group	11,260	10,478
Kuwait Finance House	10,881	10,104
Burgan Bank	4,708	4,640
Gulf Bank	3,662	3,326
Commercial Bank of Kuwait	2,554	2,630
Al-Ahli Bank of Kuwait	1,938	1,947

Source: 2014 annual financial statements for each bank.

Note:

(1) Customer deposits are based on consolidated figures and include international customer deposits.

As at 31 December 2014, the Group's customer deposits represented 29.0 per cent. of the total customer deposits of the Kuwaiti commercial banking sector.

	As at 31 December	
	2014	2013
	(KD million)	
Ranking by customer loans and advances[(1)]		
The Group	11,909	10,695
Kuwait Finance House	8,119	7,595
Burgan Bank	4,386	3,955
Gulf Bank	3,711	3,487
Commercial Bank of Kuwait	2,320	2,317
Al-Ahli Bank of Kuwait	2,422	2,189

Source: 2014 annual financial statements for each bank.

Note:

(1) Total customer loans and advances are based on consolidated figures and include international customer loans and advances. Figures for the Bank include Islamic financing.

As at 31 December 2014, the Group's customer loans and advances (which include Islamic financing) represented approximately 32.5 per cent. of the total customer loans and advances of the Kuwaiti commercial banking sector.

The Group's current competitive strategy is to focus on maintaining its market leadership positions in its domestic market and to attract new customers through the products and service which it offers. See "*Strategy—Defend and grow leadership position in Kuwait*".

The Islamic banking sector in Kuwait is attracting a growing customer base, especially among local co-operative and other similar bodies. The principal competitive advantage enjoyed by Islamic banks is their ability to offer residential mortgage financing, which conventional banks are not permitted to do. Regulatory restrictions relating to interest rates and ratios for personal lending typically favour Islamic banks over conventional banks. In particular, whereas the interest rates that can be charged by conventional banks are capped, given there is no concept of interest in Islamic banking, the Islamic banks in Kuwait are able to earn better margins than conventional banks on their loan portfolios. The Group is currently the only conventional banking group to offer Islamic banking services in Kuwait. Although Boubyan Bank has a smaller balance sheet than certain other Islamic banks operating in Kuwait, its strategy is to differentiate itself by focusing on high net worth and affluent clients and large and mid-market corporate customers, thereby leveraging many of the Group's core strengths. See "*Strategy—Geographic and product and service diversification—Establishing an Islamic franchis*e".

INFORMATION TECHNOLOGY

To ensure that its IT continues to meet changing business requirements, the Group's IT strategy is structured to optimise people, process and technology (each as discussed further below), with the main focus on governance, organisation, quality, applications portfolios and technology infrastructure.

People

The Group aims to recruit and retain talented and competent IT staff to manage its technology assets and deliver change. In addition, a focus on training and succession planning aims to establish clear career paths for IT staff. However, the Group may consider alternative forms of resourcing in the future, including managed services and selective outsourcing, to allow the IT function to contain costs and better source growing needs in end user support, network management, mainframe management, tooling, project operations support, service desk and the network operations centre.

Process

The Group believes that process and automation are becoming more aligned, which will reduce manual intervention and enhance workflow. As part of its service improvement programme, change request processes, system development lifecycle, IT service management, IT vendor management, project management and risk and audit management are all within the IT realm of continuous improvement. The system and service tools adopted will help to monitor versions, highlight end-of-life technologies and help stabilise systems to ensure production deficiencies and incidents are kept to a minimum. The Group has recently implemented projects to enhance stability and customer experience, including upgrading its branch network and data storage capacity and increasing the stability and availability of its online banking and ATM systems.

Technology

The Group focuses on stability and increased availability to ensure that its customers are able to access online channels and systems when needed, including online banking, mobile banking, ATMs and branch systems. As a result, the Group has focused on foundation technologies such as networks (microwave and multi-protocol label switching) upgrades and enhanced tiered storage. The Group's disaster recovery site has automated orchestration improving the cut-over between its data centres from 8 to 4 hours. The Group also hopes to adopt enhanced metrics where both infrastructure and business applications can be fine-tuned with performance-monitoring tools. All Group businesses have measurable service level agreements which will be used to benchmark key performance indicators with a view to further continuous improvements.

Data security

The Group has an offsite IT operations centre and a disaster recovery site located at Jleeb Al Sheyokh that can be activated when required. This is to ensure that all critical systems are fully operational in line with the Group's business continuity plan, in order to provide essential services to its customers. The Group carries out daily and other periodic data back-ups which are stored in the main data centre and replicated online (in real time) to the disaster recovery centre.

Additionally, the Group provides real time back-ups of all critical systems and data to an international location (which is in the United Kingdom) in compliance with CBK instructions. The Group's information security office carries out various security assessments using external agencies and has adopted the latest technologies to assist in mitigating cyber threats. Whilst the Group has experienced cyber threats, the controls and incident response procedures in place have minimised any adverse impact on the service provided by the Group.

RISK MANAGEMENT

INTRODUCTION

Risk, including credit risk, liquidity risk, market risk and operational risk, is inherent in the Group's activities. The complexity in the Group's business operations and diversity of geographical locations require identification, measurement, aggregation and effective management of risks and efficient allocation of capital towards achieving an optimal balance between risk and return.

The Group seeks to manage its risks in a structured, systematic manner through a global risk policy, which embeds comprehensive risk management into the organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors (the **Board**) with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Compliance function and its Internal Audit function assist executive management in controlling and actively managing the Group's overall risk profile.

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

- the Board provides overall risk management direction and oversight;
- the Group's risk appetite is reviewed by the Board Risk Committee and approved by the Board;
- 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.

GROUP RISK MANAGEMENT AND COMPLIANCE FUNCTION

The Group Risk Management and Compliance function, which is headed by the Group Chief Risk Officer (**CRO**), reports directly to the Board Risk Committee and is responsible for:

- identifying and assessing the key risks faced by the Group;
- measuring the Group's exposure to those risks;
- monitoring this exposure in light of the Group's risk appetite;
- determining the corresponding capital needs on an ongoing basis; and
- monitoring and assessing major decisions related to risk-taking.

Group Risk Management and Compliance is also responsible for ensuring that the Group adheres to all applicable rules and regulations issued by regulators, including the CBK, the CMA and other applicable regulatory authorities.

The Board is responsible for setting the Group's risk appetite and strategy; approving the Group's risk management framework, policies and procedures and monitoring salient risks.

Group Risk Management and Compliance comprises the following departments:

- the Domestic Credit Risk Management Unit;
- the International Credit Risk Management Unit;
- the Operational Risk Management Unit;

- the Market Risk Management Unit;
- the Portfolio Risk Management and Control Unit;
- the Compliance Unit; and
- the Anti-Money Laundering Unit.

RISK STRATEGY

The key elements of the Board-approved risk strategy are:

- balancing performance across the Group's functions;
- maintaining stability and sustainability during crisis situations;
- aligning the risk framework with the overall business strategy of the Group;
- ensuring effective and adequate compliance with regulatory capital requirements, in keeping with the Group's strategy;
- effective planning of risk through an appropriate risk appetite; and
- performing stress tests consistently to assess the impact on the Group's capital requirements, capital base and liquidity position.

RISK APPETITE

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

The risk appetite is reviewed and recommended by the Board Risk Committee to the Board for final approval. This ensures the risk appetite statements are consistent with the Group's strategy and business environment. Through the risk appetite statements, the Board communicates to management the acceptable level of risk for the Group, determined in a manner which meets the objectives of shareholders, depositors and regulators.

Group Risk Management and Compliance aims to identify early warnings of risk limit and risk appetite breaches, and is responsible for notifying them to the Board Risk Committee and the Board.

SCOPE AND NATURE OF RISK REPORTING TOOLS

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

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

The CBK requires all Kuwaiti banks to perform semi-annual stress tests under three scenarios: mild, medium and severe. These tests must be based on two sets of assumptions: one based on CBK-prescribed parameters, which are essentially shocks on Pillar 1 risks and the other based on the Bank's own assumptions, which are generally required to be more comprehensive (by including Pillar 2 risks) than those prescribed by the CBK.

These parameters cover stress scenarios for interest income, fee income, foreign exchange trading income, falls in collateral value and stock market declines resulting in additional impairment losses. The Group conducts these stress tests semi-annually, as stipulated by the CBK, and also undertakes scenario testing at periodic intervals to quantify potential inherent risks that the Group faces.

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

PRINCIPAL RISKS

The principal risks faced by the Group are:

- **credit risk**, which is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations to the Group under a contract and arises principally in the Group's lending, trade finance and treasury activities;
- **market risk**, which is the risk that movements in market rates, including foreign exchange rates, equity prices, interest rates and credit spreads, will reduce the Group's income or the value of its portfolios and arises principally from financial claims and loans, position-taking, and trading and investment activities;
- **liquidity risk**, which is the risk arising from the inability of the Group to meet its payment obligations on time without incurring unacceptable losses and principally arises in the course of its general funding activities; and
- **operational risk**, which is the risk of loss arising out of policy or procedure breach or a process breakdown and includes fraud, unauthorised activities, error, omission, inefficiency, systems failure and external events.

Credit Risk

Credit risk management strategy

Senior management implements the credit risk strategy approved by the Board following the recommendations of the Board Risk Committee and develops policies and procedures for identifying, assessing, monitoring and controlling credit risk.

The Group's Executive Committee, chaired by the Group Chief Executive Officer (the **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 and the Board Credit Committee. Furthermore, facilities granted to these related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. All such facilities are approved by the Board in accordance with authorities granted by the Shareholders' General Assembly.

Country limits are determined based on an analysis of economic, social and political factors, taking into consideration reliable, externally-produced data on the country (where available) as well as through the application of local business and market knowledge. All country-limit exposures are subject to periodic review and approval by the Board or the Board Credit Committee.

The Group Risk Management Committee, chaired by the 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 appropriately. These committee meetings are led and conducted by Group Risk Management.

Corporate credit risk management

Corporate 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 and Compliance function in co-ordination with management and the Board Risk Committee and are periodically enhanced in line with industry credit risk management best practices.

All new credit proposals along with reviews of, and material changes to, existing credit facilities are evaluated and approved by an appropriate credit committee. The Group has the following hierarchy of credit committees at the head office level:

- Board Credit Committee, which consists of non-executive Board members and approves all facilities exceeding the competence of the other committees;
- Senior Credit Committee, which consists of the CEO, the Deputy CEO, the Kuwait chief executive officer, the Group Chief Risk Officer (the **CRO**), the Head of Corporate Banking and a number of senior executives in Corporate Banking and is competent to review, approve or recommend domestic credit proposals that exceed the Management Credit Committee's competence as well as those concerning criticised accounts;
- Management Credit Committee, which consists of the Head of Corporate Banking, the Deputy Head of Corporate Banking, the Head of Domestic Credit Risk and a number of senior executives in Corporate Banking and is competent to review, approve or recommend domestic credit proposals except those concerning criticised accounts, which are escalated to the Senior Credit Committee;
- Senior International Credit Committee, which consists of the CEO, the Deputy CEO and the CRO and is competent to review, approve or recommend all credit proposals originating from the Group's international offices that exceed the Management International Credit Committee's competence as well as those concerning criticised accounts; and
- Management International Credit Committee, which consists of the Chief Credit Officer, the Head of the International Banking Group, the Head of International Credit and the Assistant General Manager of International Credit and is competent to review, approve or recommend all credit proposals originating from the Group's international offices except those concerning criticised accounts, which are escalated to the Senior International Credit Committee.

The credit committees have a set of approval authorities in place as delegated by the Board and which vary by reference to the type of counterparty (for example, sovereign, financial institution and corporate), the counterparty rating (investment grade or speculative) and whether the facility is funded or non-cash, among other factors. Specific approval authorities exist for fully-secured facilities as well as criticised accounts.

In addition, the Group's international offices have their own hierarchy of credit committees.

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

Consumer credit risk management

The Group's consumer credit risks are managed through an independent unit, which is part of the Group Risk Management and Compliance function and works with the consumer banking business. Consumer credit risk management functional areas are aligned with key concepts of risk management, namely governance, control and measurement and reporting.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and approvers. Within this framework, all credit exposure limits are approved within a defined credit approval authority framework. Policies and procedures specific to each business/product line are approved by the Executive Committee and significant policies are ratified by the Board.

Credit review procedures and loan classification

Corporate and SMEs

The Group's policy is to assess the credit risk in commercial banking through a risk-rating process which provides transparency and consistency to enable comparison between obligors. The Group uses an industry standard risk rating tool to make these assessments. Under this risk rating framework, the borrowers are rated based on financial and business assessments.

The risk rating process derives Obligor Risk Ratings (**ORRs**) and Facility Risk Ratings (**FRRs**). The rating methodology focuses on factors such as operating performance, liquidity, debt service and capital structure. The ratio analysis includes the assessment of each ratio's trend across multiple periods, in terms of both rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessments of the operations, liquidity and capital structure are also included in the assessment. The ORR yields a scale of 10 ratings for performing obligors plus three for non-performing obligors and reflects the probability of default for an obligor (irrespective of facility type or collateral) over the next 12 months for a senior unsecured facility. The Group is also implementing risk rating modules for commercial real estate, HNWIs and project finance facilities.

The Group also has an approved framework for FRRs. While the ORR does not take into consideration factors such as the availability of collateral and support, the FRR is a measure of the quality of the credit exposure based on the expected loss in the event of default after considering collateral and support. The availability of eligible collateral or support substantially reduces the extent of the loss in the event of default and such risk mitigating factors are reflected in the FRR.

In cases where the risk rating tool is not applicable, the Bank assigns a rating based on an internal assessment which is mapped to the relevant external rating scale.

The Group classifies its exposure in accordance with the North American Industry Classification System Code in addition to the classification based on purpose codes as defined by the CBK. This additional classification helps to improve the accuracy of ORRs through peer group analysis in respect of performance and financial indicators and also allows the Group to classify its portfolio into sub-segments which facilitate analysis and improve the management of concentrations.

Financial institutions

The Group's policy is to assess the credit risk in facilities granted to financial institutions by utilising data from external credit agencies. This data is further complemented by the relevant financial institution's existing and potential bilateral transaction history and relationship with the Group. The resulting credit facilities are structured across various products and maturities and are subject to review at least twice annually.

Consumer lending

Credit risk scorecard models are used to facilitate credit decisions and to monitor credit facilities advanced to consumer banking customers. Applicant scoring models are customer-centric models which incorporate CBK regulatory guidelines and Group policies related to consumer credit facilities, such as debt-to-income ratio, minimum qualifying income and limits on advances by product type. Additional inputs utilised include applicant characteristics obtained from credit bureau, particularly Ci-Net (the 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 on a continual basis.

Consumer credit risk is monitored with three lines of defence. As the first line of defence, the consumer business lending group is responsible for adherence to the credit policies, controls and processes. As the second line of defence, the consumer risk management team, working independently of the business unit, assesses and ensures implementation of credit risk management discipline and policies. The third line of defence, the Internal Audit function, independently tests, verifies and evaluates controls for effective credit risk management and the implementation of policies and procedures.

Portfolio management

The Group has also introduced a portfolio risk rating process through which the overall portfolio quality is assessed at regular intervals and analysed in risk management committees. In addition, a RAROC (Risk Adjusted Return on Capital) model is being introduced to assist management in pricing credit facilities granted to corporate clients. The RAROC model is based on the premise that pricing should be aligned with the risk embedded in the proposal.

The table below shows a classification of the Group's customer loan portfolio by credit quality as at 31 December in each of 2014 and 2013.

	Neither past due nor impaired				
	High(1)	**Standard**(2)	**Past due but not impaired**(3)	**Past due and impaired**	**Total gross customer loan portfolio**
			(KD million)		
31 December 2014	10,445	1,728	63	186	12,423
31 December 2013	9,184	1,667	61	218	11,131

Notes:

(1) Credit exposures classified as "High" quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and repayment capacity which are considered to be good to excellent.

(2) Credit exposures classified as "Standard" quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not impaired.

(3) Credit exposures classified as "Past due but not impaired" are facilities that are past due up to a maximum period of 90 days. Upon 91 days past due the facilities are classified as impaired.

As at 31 December 2014 and 2013, 83.0 per cent. and 69.6 per cent., respectively, of the past due but not impaired category was 60 days or less past due, with the remaining loans being between 61 and 90 days past due.

Loan monitoring

The Group's credit exposures are regularly reviewed and monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms which could result in a deterioration of credit risk quality. The triggers and early-warning systems along with market intelligence, facility utilisation and collateral valuation updates are included in the regular review of the credit facilities to enable timely corrective action by management. These reviews are performed on a semi-annual, annual and ad-hoc basis as required. The results of the monitoring process are reflected in the internal rating.

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

Cross-border exposures are monitored by the central credit risk management function against specific and set limits for this purpose.

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

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

Credit risk mitigation strategy

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

In accordance with CBK regulations, the Group limits its credit concentration per group of related entities to 15.0 per cent. of the Bank's regulatory capital. This does not apply to government and quasi-government entities, agencies and departments in the GCC countries that do not work on a commercial basis or to banks. The Group also measures its concentration levels across sectors, geographies and products to ensure and enhance the portfolio oversight and diversification.

Credit risk mitigants, such as collateral and guarantees from third parties, are 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 the sale of loans are additional practices used to manage the Group's exposures.

The main types of collateral accepted by the Group are:

- cash collateral;
- quoted shares and units in collective investment schemes;
- bank guarantees;
- commercial and residential real estate; and
- eligible debt instruments.

In accordance with the Group's credit policies, banks and creditworthy companies and individuals with a high net worth are accepted as guarantor counterparties, subject to credit risk assessment. Furthermore, in accordance with the CBK Basel III framework, only cash collateral, quoted shares, eligible debt instruments and units in collective investment schemes are recognised as risk mitigants for capital adequacy purposes. The eligibility of commercial real estate for capital adequacy purposes is being gradually phased-out as part of the CBK Basel III framework.

The custody and daily mark-to-market of financial collateral are performed independently of the business units. Except for private residences, real estate collateral is valued on an annual basis.

As at 31 December 2014, approximately 50.0 per cent. of the Group's corporate loan portfolio was secured by collateral.

The Group is authorised to liquidate the portfolio of collateral at its discretion in the event of any default in the payment of the covered loan. The most liquid collateral (such as cash and listed shares) can then be liquidated within a matter of days and the proceeds applied to discharge the amounts outstanding on the relevant loan.

The collateral enforcement process in Kuwait in respect of real estate involves a number of steps. Given the fact that the relevant debtor and/or guarantor may raise objections at each stage, if enforcement is contested the typical time taken to finalise enforcement proceedings in relation to real estate is between 36 and 48 months and, in difficult cases, up to 60 months.

Consumer loans are generally not secured. However, before granting consumer loans, the Group requires that the customer's employer makes the customer's salary payments direct to the customer's account held with the Group.

Loan provisioning and write-off

Impairment of financial assets

The Group assesses, at each reporting date, if 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.

In relation to the Group's customer loans and advances, which are typically 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 its estimated future cash flows discounted at the 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 connected 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 CBK instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

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 or profit or a principal instalment is past due for more than 90 days and if the carrying amount of the facility is greater than its estimated recoverable value.

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

- Watchlist, irregular for a period up to and including 90 days;
- Substandard, irregular for a period from and including 91 days and up to and including 180 days;
- Doubtful, irregular for a period from and including 181 days and up to and including 365 days; and
- 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.

In relation to credit facilities which have been rescheduled by agreement between the Group and the customer, any previously-made provision is required to be maintained to meet the rescheduled credit facilities. When 25 per cent. of the rescheduled debt balance has been repaid, the Provision Committee may reduce the provision to an amount not less than 20 per cent. of the debt balance.

The general provision has to be maintained at minimum levels of 1 per cent. for cash facilities and 0.5 per cent. for non-cash facilities (net of certain categories of collateral) for all facilities in respect of which no specific provision has been made.

For a discussion of movements in the Group's specific and general provisions at 31 December in each of 2014 and 2013, see note 11 to the Financial Statements.

Market risk

Market risk management

The Group's market risk management framework governs its trading and non-trading related market risk. Market risk stemming from trading activities is managed by the Group Treasurer. The management and oversight of market risk inherent within the Group's non-trading activities is managed by the Group Asset and Liability Executive Committee, supported by the regional Asset and Liability Committees. All activities giving rise to market risk are conducted within a structure of approved credit and position limits.

The Group's strategy for controlling market risk involves:

- stringent controls and limits;
- strict segregation of "front" and "back" office duties;
- regular reporting of positions;
- regular independent review of all controls and limits; and
- rigorous testing of pricing, trading and risk management systems.

Market risk arising from trading activities

The Group Risk Management and Compliance function independently monitors the regional and global trading market risk exposure using Value-at-Risk (**VaR**) methodology to derive quantitative measures specifically for market risk under normal market conditions. This enables the Group to apply a constant and uniform measure across all of its trading activities and facilitates comparisons of market risk estimates, both over time and against daily trading results. Group VaR is calculated using a 99 per cent. confidence level and a holding period of ten days in line with Basel Committee guidelines.

On a daily basis, VaR is supplemented with stress-testing to quantify market risk under extreme stress scenarios based on observed historical worst-case and in-house developed scenarios. VaR computation allows for diversification benefits at the Group level. Furthermore, the Group recognises and mitigates the correlation of other risks and processes on its market risk monitoring process.

In addition to VaR, the Group uses a structure of limits to manage and control its market risk associated with trading activities. The Group also produces stressed VaR using the same framework. Computations are based on stressed historical data.

Market risk arising under interest-rate swap transactions

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

Non-trading market risk in the banking book

The Group's key non-trading market risk is the sensitivity of its net interest income to movements in interest rates. This interest-rate risk in the banking book is managed through a "gap" limit structure which is supplemented by periodic analysis of scenarios (instantaneous parallel shift of +/-5 basis points and +/-10 basis points to the yield curve) to capture the extreme indicative measure of exposure to interest rate changes. The analysis of scenarios showed an impact in the banking book as follows:

	+5 bps	-5 bps	+10 bps	-10 bps
		(KD million)		
31 December 2014	1.2	(1.2)	2.4	(2.4)
31 December 2013	0.5	(0.5)	1.0	(1.0)

The Group does not use the results of scenario analysis to predict changes in its earnings because of the simplified assumptions inherent in scenario analysis. Such assumptions include assumptions that interest rates move by the same percentage irrespective of maturity, that all positions run to maturity and that no management corrective action is taken to mitigate the impact of interest rate risk. In addition to interest rate risk, the Group is also exposed to market risk as a result of changes in the "fair value" of its strategic equity and investment positions held without any intention of liquidation.

Interest rate risk

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

The Group does not believe that it is excessively exposed to interest rate risk as most of its assets and liabilities are repriced regularly and much of its exposures arising on medium-term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. In addition, the reverse cumulative interest rate gap is monitored on a daily basis and adjusted where necessary to reflect changing market conditions.

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 of equity is the impact arising from changes in interest rate on the 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. See note 26.3.1 to the 2014 Financial Statements for an interest rate sensitivity analysis based on a 25 basis point increase in interest rates.

Foreign exchange risk

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

Foreign exchange risks are controlled through limits established by the Executive Committee on currency position exposures. 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 on-going basis.

See note 26.3.2 to the 2014 Financial Statements for an exchange rate sensitivity analysis based on a 5 per cent. strengthening of certain currencies against the dinar.

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 equity price risk through diversification of investments in terms of geographic distribution and industry concentration.

The Group's investments unit is responsible for managing its investment securities portfolio. In accordance with IAS 39, the equity investments are classified as available-for-sale securities, which means that they are expected to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These investments are initially recognised at fair value and subsequent unrealised gains or losses arising from changes in fair value on each balance sheet date are recognised in comprehensive income. When an investment is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

The CBK has set a maximum limit of 50 per cent. of a bank's regulatory capital for investment in funds and equities, excluding subsidiaries.

The Group treats its available-for-sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below the cost of the investment or where other objective evidence of impairment exists. The determination of what is significant or prolonged requires judgement by management. See note 2.36 to the Financial Statements.

See note 26.3.3 to the 2014 Financial Statements for an equity price sensitivity analysis based on a 5 per cent. change in market indices.

The table below analyses the Group's total equity investment portfolio as at 31 December 2014.

	As at 31 December 2014
	(KD million, except percentages)
Total equity investments	114.9
of which quoted investments	44.0%
Cumulative realised gains from sale during 2014[1]	7.5
Cumulative net unrealised gains recognised[1]	19.4
Capital requirement of equity investment portfolio categorised as:	
Available for sale	13.4
Fair value through profit and loss	0.4

Note:

(1) This figure is for the year ended 31 December 2014.

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, see notes 2.19 and 2.20 to the 2014 Financial Statements.

LIQUIDITY RISK

Liquidity risk can be caused by market disruptions or credit rating downgrades which may restrict the availability of certain sources of funding. To address this risk, management has diversified the Group's funding sources and its assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of the Group's activities. Under the guidance of the ALEC, the head office treasury (in conjunction with the local treasuries) manages the Group's liquidity and funding to ensure that sufficient funds are available to meet its known cash funding requirements and any unanticipated needs that may arise. At all times, the Group aims to hold what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The liquidity and funding management process includes:

- projecting cash flows by major currency;
- self-imposed and regulatory liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- liquidity stress tests to make sure the Group can survive liquidity squeezes under different stress scenarios.

The Group maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further reduced by the Group's adherence to the CBK's liquidity requirements, which comprise:

- maturity ladder mismatch limits for specific time periods: 10 per cent. for seven days or less; 20 per cent. for one month or less; 30 per cent. for three months or less; and 40 per cent. for six months or less;

- a requirement to hold 18 per cent. of KD customer deposits booked in the Bank, in Kuwaiti government treasury bills and bonds, current account/deposit balances with the CBK and/or any other financial instruments issued by CBK; and
- a requirement to keep sufficient funding against loan generation, as required by the CBK under its maximum available lending limit requirements.

The Group has also a contingency funding plan to establish an action plan to manage a stressed liquidity situation created by bank-specific issues or by market–wide (systemic) liquidity disturbances. The purpose of the plan is to provide a framework within which an effective response to a liquidity crisis can be managed.

Note 26.2 to the 2014 Financial Statements contains maturity profiles of the Group's assets and liabilities based on contractual cash flows and maturity dates and on contractual repayment arrangements.

DERIVATIVES

The Group enters into various types of transactions that involve derivative financial instruments in the ordinary course of its business. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rates or indices. The Group transacts in derivative instruments both as principal, solely to manage its own financial risk, and on behalf of its clients. In the latter case, the Group covers the exposure which it assumes on a back-to-back basis with market counterparties to avoid taking any market risk. The Group is currently party to interest rate swaps for its own account and forward foreign exchange contracts for its own account and on behalf of clients. The fair values and notional amounts of its positions in these instruments are listed in note 23 to the 2014 Financial Statements.

Counterparty credit risk

Assignment of credit limits for counterparty credit exposures

Counterparty credit exposure arises from the risk that counterparties to derivative contracts with the Group are unable to meet their payment obligations under financial contracts. Potential counterparties are examined according to historical financial performance and current ranking with comparable banks. Information from reputable credit agencies is taken into consideration when evaluating potential counterparties. The location of potential counterparties is also taken into account in order to mitigate against excessive geographical risk. Using this data, credit limits are allocated for all counterparties to limit any potential risks. These credit limits are reviewed at least once a year. Credit exposure is actively monitored on a regular basis and any excesses are escalated in accordance with established governance thresholds.

Policies for securing collateral and credit reserves

In order to reduce its counterparty risk, the Group selectively enters into credit support arrangements based on industry standard forms for derivative contracts. In line with these standards, the Group generally accepts only cash as collateral. It also has policies and procedures for reviewing the legal enforceability of credit support documents in accordance with applicable rules. Through the use of a collateral service agent, daily margining is performed with the appropriate counterparties. Daily valuations for qualified derivatives are compared to those reported by the counterparties and any disagreements are quickly resolved. The Group uses an internal model to estimate potential future exposure, which includes the mitigating effects of netting and collateral in valuing over-the-counter contracts.

Additional collateral requirements due to credit rating downgrade

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

Exposure-at-default methodology

The Group uses the concept of potential future exposure (**PFE**) to estimate counterparty exposure at future time horizons. PFE is defined as the maximum credit exposure over a specified period of time calculated at a 99 per cent. confidence level. This maximum is an upper bound at a confidence interval for future credit exposure. The simulation model projects potential values of various risk factors which affect the Group's counterparty portfolio under a large number of simulation paths, and then determines possible changes in counterparty exposure for each path by re-pricing transactions with that counterparty under the projected risk factor values.

The PFE incorporates the effects of legally-enforceable netting and collateral agreements when estimating counterparty exposure. As at 31 December 2014, the Group's PFE on its derivatives transactions amounted to KD 17.1 million.

OPERATIONAL RISK

Operational risks are managed at the Group level through an operational risk management framework which defines the roles and responsibilities of the Board Risk Committee, the Management Risk Committee, the operational risk management function, business line management and the Internal Audit function for monitoring, managing and reporting operational risk. The key components of the Board-approved framework are:

- comprehensive, documented policies, procedures and controls which reflect CBK and Basel guidelines for internal controls and sound practices for managing and supervising operational risks in banks;
- annual and ad-hoc risk and control self-assessments conducted by business line management in coordination with and supported by the operational risk management function;
- quarterly key risk indicator submission and validation to identify risk trends and develop mitigating actions;
- operational incident and loss reporting and investigation of causes and failed controls; and
- assessment of external operational loss incidents occurring at other banks, which are cross-checked against the Group's internal control system to proactively identify any potential control weaknesses.

The Group's Risk Management and Compliance function works closely with all of the Group's business lines to raise awareness of operational risk. In addition to the risk opinions and constant support provided by the operational risk function through daily activities, operational risk awareness is achieved through a comprehensive training programme developed and delivered by the operational risk function to the various business units. The aim of this training programme is to cultivate strategic relationships with business line management and to encourage open communication and ownership of risk issues. This risk awareness training has so far been delivered to the majority of concerned staff both in Kuwait and at international locations.

Risk and control self-assessments are conducted annually and on an ad-hoc basis when the need arises to ensure that management has a clear picture of the operational risk exposure in terms of residual risks and to highlight any major control weaknesses. The focus is on business units performing the self-assessment of actual risks facing them and on the effectiveness of the controls they are implementing which is then validated and reassessed by operational risk management.

Key risks across business and support units are identified and monitored on a quarterly basis using various key risk indicators developed with the business units in line with the Group's risk appetite.

The capture and reporting of operational risk incidents and losses is established as a firm process across all business and support units. Close coordination with business units and the Internal Audit function enables operational risk management to track operational incidents and losses and to propose mitigating actions for business to follow in order to address control weaknesses.

In addition, a comprehensive business continuity and disaster recovery management programme has been implemented and fully tested and is designed to cope with business disruptions and major disasters.

The Group's operational risk management function leads the process management and control function across the Group to ensure control gaps are minimised across its key processes. Operational risk reporting is escalated periodically to the Board Risk Committee to ensure proper oversight and review is conducted by relevant members of the Board and senior management.

COMPLIANCE

Overview

The Group's compliance function is an independent function which reports to the Board Risk Committee. The function is responsible for overseeing and managing compliance aspects across the Group through a robust compliance framework.

The compliance framework consists of compliance policies, procedures and a dashboard and compliance is monitored through timely reports. In addition, a risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance self-assessment tools that are used by the various business units.

The Group's compliance programme has three main pillars (advise, monitor and report) built on a foundation of a sound understanding of the appropriate regulatory requirements. Advising encompasses the internal notification of regulatory change, new products and services and internal processes as well as other internal communications including training and a compliance calendar. Monitoring includes procedures for compliance reviews, breach escalation, complaints handling and compliance indicators.

Compliance confidence indicators (**CCIs**) are used as a key tool in providing a measurable way to monitor compliance across the Group. Every department head is assigned a CCI which also forms part of his/her appraisal.

The Group's Internal Audit department also ensures that a robust compliance framework is being proactively implemented.

A risk and compliance matrix is used across the Group to assess and monitor the effectiveness of regulatory compliance in addition to regulatory compliance self- assessment tools.

Anti-money laundering (AML) and counter-terrorism financing (CTF)

The Group applies an integrated AML/CTF policy and procedures which take account of Financial Action Task Force recommendations, international sanctions lists (such as those of the United Nations, the European Union and the US Office for Foreign Assets Control) and applicable AML-related laws and regulations.

The Group's CFT policies apply customer due diligence principles for applicants and customers which include the following:

- all new customers being identified and verified;
- all customers being screened against all prohibited lists to ensure full compliance with international sanctions lists;
- all outward and inward transfers being screened to comply with all sanctions lists.

Customer transactions are monitored on a daily basis under a risk-based approach to ensure no money laundering transactions are conducted. In addition, the Group conducts enhanced due diligence in relation to high-risk customers.

Internal Audit

The Group's Internal Audit function is an independent function reporting directly to the Board Audit Committee. The Board Audit Committee has three members (two of whom have specialised financial and investments experience). The CEO is normally invited to attend Board Audit Committee meetings.

The Board Audit Committee's terms of reference require it to:

- ensure the independence and effectiveness of the Internal Audit function;
- review the adequacy, efficiency and effectiveness of internal controls in the Group;
- review the accuracy and reliability of financial statements; and
- oversee the selection of the external auditors and review their scope of work and reported findings.

The Internal Audit function is an independent objective assurance function headed by the Chief Internal Auditor. The Internal Audit group is governed by a Board-approved internal audit charter, which defines the independence, objectivity, authority and responsibilities of the Group. The charter is in line with applicable regulations and promotes the standards of best professional practice issued by the Institute of Internal Auditors and applicable Basel Committee guidelines.

The Internal Audit group has adopted a risk-based audit approach for planning and conducting its audits. In addition, identified issues are tracked and followed up on a periodic basis. Validation of action taken and reporting on implementation status with clear escalation mechanisms are in place.

Final audit reports are circulated to the Board Audit Committee, the Chairman of the Board and the executive management concerned. In addition, quarterly meetings and presentations to the Board Audit Committee, including highlights on key audit issues and their follow-up status, are held.

The Board Audit Committee submits a quarterly report to the Board on its activities and the internal audit outcomes.

MANAGEMENT AND EMPLOYEES

MANAGEMENT

Corporate governance framework

The Group's corporate governance framework is based on principles and standards defined by leading professional bodies and regulatory authorities and is embedded into the day-to-day business and practices of the Group. The framework is designed to secure effective oversight of the Group's strategy and business operations with a robust risk management approach, transparency and accountability.

The Board reviews and updates the corporate governance framework on an annual basis, senior management ensures that it is implemented through policies and procedures, and employees follow the corporate governance requirements in their day-to-day business.

The Group is committed to providing timely, consistent and accurate information to its stakeholders and has adopted a disclosure and transparency policy to ensure that this is achieved. This policy covers a wide range of areas, including the key quantitative and qualitative information related to financial performance and financial stability, risk management factors, remuneration, corporate governance, related-party transactions, conflicts of interest and substantial changes in business.

Board

The Group operates under the direction of the Board, which comprises nine non-executive members. Each member of the Board is elected during a shareholders' general assembly meeting for a period of three years. In line with CBK requirements, the Board convenes at least once each quarter. The Board convened 13 times in 2014.

The primary mandate of the Board is to align the Group's strategic objectives, risk appetite and overall corporate governance framework with the best interests of the Group and thereby maximise value for shareholders. This mandate is coupled with responsibility for monitoring and maintaining the Group's financial and economic stability and safeguarding the rights and benefits of all of the Group's stakeholders.

The roles of the Board Chairman and the CEO are separate and independent of one another and there is a clear segregation of duties and responsibilities. The Chairman's responsibilities are set out in the Board Charter and in the terms of reference of the Board.

The table below shows the names of the members of the Board as at the date of this Prospectus.

Name	Position
Nasser Musaed Abdulla Al-Sayer	Chairman
Ghassan Ahmed Saoud Al-Khalid	Vice-Chairman
Hamad Abdul Aziz Al-Sager	Board Member
Yacoub Yousef Al-Fulaij	Board Member
Hamad Mohammed Abdulrahman Al-Bahar	Board Member
Muthana Mohammed Ahmed Al-Hamad	Board Member
Haitham Sulaiman Al-Khaled	Board Member
Louay Jassem Al Kharafi	Board Member
Emad Mohammed Abdulrahman Al-Bahar	Board Member

Detailed below is brief biographical information about each member of the Board.

Nasser Musaed Abdulla Al-Sayer

Mr. Al-Sayer has been a Board member since 1980. He was appointed as Chairman of the Board in August 2014 (having served as Vice-Chairman of the Board since 1993). He is also Chairman of the Board Corporate Governance Committee.

Mr. Al-Sayer has been a board member of the Kuwait Banking Association since 1999, where he was also the Chairman from 1999 to 2006. He was also a member of the Supreme Council for Planning & Development (which is chaired by H.E. The Prime Minister of Kuwait), and the Finance and Investment Committee of the Kuwait Chamber of Commerce and Industry between 2003 and June 2012. Mr. Al-Sayer has considerable experience in banking, investment, strategic planning and governance in both the private and public sectors.

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

Ghassan Ahmed Saoud Al-Khalid

Mr. Al-Khalid has been a Board member since 1987. He is member of the Board Risk Committee and the Board Nomination and Remuneration Committee.

Mr. Al-Khalid is the Vice-Chairman and Managing Director at ACICO Industries Co. He has experience in corporate banking, trade finance, credit and the retail sector. Mr. Al-Khalid holds a Bachelor of Science degree in Civil Engineering from West Virginia University, USA.

Hamad Abdul Aziz Al-Sager

Mr. Al-Sager has been a Board member since 1983. He also served as a Board member from 1975 to 1976. He is a member of the Board Credit Committee and the Board Corporate Governance Committee.

Mr. Al-Sager is a board member at Al Kout Industrial Projects Co., Kuwait. He has extensive experience in the banking industry, especially in corporate credit.

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

Yacoub Yousef Al-Fulaij

Mr. Al-Fulaij has been a Board member since 1998. Mr. Al-Fulaij is a member of the Board Credit Committee and the Board Corporate Governance Committee.

Having previously been a General Manager at the Bank from 1983 to 1998, Mr. Al-Fulaij has broad experience in banking activities, including risk management and internal controls.

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

Hamad Mohammed Abdulrahman Al-Bahar

Mr. Al-Bahar has been a Board member since 2005. He is the Chairman of the Board Audit Committee and a member of the 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 asset management, in addition to experience in internal controls.

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

Muthana Mohammed Ahmed Al-Hamad

Mr. Al-Hamad has been a Board member since 2007. He is a member of the Board Credit Committee and the Board Corporate Governance Committee.

Mr. Al-Hamad is also the Chairman of Al-Watyah United Real Estate Company. He was previously the Chairman of Future Communication Company International (until 2014), a board member of Arab European Company for Financial Management from 1987 to 1993, a board member of the Commercial Bank of

Kuwait from 1993 to 1997 and a board member of United Bank of Kuwait from 1996 to 1997. He has considerable experience in finance and business economics.

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

Haitham Sulaiman Al-Khaled

Mr. Al-Khaled has been a Board member since 2010. He is a member of the Board Audit Committee and the Board Risk Committee.

Mr. Al-Khaled has served as a board member of Al Shall Consulting & Investment Co. since 2006 and Al Arjan Global Real Estate Company since 2010. He has been the Chairman of Al Arjan Global Real Estate Company since 2014. Mr. Al-Khaled previously held a number of senior positions at the telecom operator Zain, including Chief Business Development Officer, Chief Executive Officer for the Middle East and Chief Strategy and Business Planning Officer. He has extensive experience in strategic planning, investments, mergers and acquisitions, corporate governance and internal controls.

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

Loay Jassem Al-Kharafi

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

Mr. Al-Kharafi served as the Vice-Chairman of the Industrial Bank of Kuwait from 1999 until 2003 and from 2005 until 2008 and was the Chairman of the bank's Board Audit Committee at the Industrial Bank during the same periods. He has held a number of advisory and commercial positions within the Al-Kharafi Group of companies. He is also the founder and Managing Partner 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.

Emad Mohammed Abdulrahman Al-Bahar

Mr. Al-Bahar has been a Board member of the Bank since August 2014, following the death of the late Chairman, Mr. Mohamed Abdulrahman Al Bahar. He is a member of the Board Credit Committee and the Board Nomination and Remuneration Committee.

Mr. Al-Bahar is a member of the Executive Board of the late Chairman's Al Bahar Group, which is one of the oldest trading conglomerates in Kuwait and the Middle East. He is also a member of the Board of Al-Ahlia Insurance Company Kuwait and of other companies abroad.

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

The business address of each member of the Board is National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001 Kuwait, Abdullah Al Ahmad Street, Sharq, State of Kuwait. No member of the Board has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Board committees

The Board has established the five Board committees which are described below. The roles and authorities of each Board committee are defined and delegated by the Board and are described in each committee's charter. Each Board committee reviews its charter on a periodic basis and submits any recommendations for amendments or updates to the Board for approval. The Board committees also submit reports to the Board's Chairman each quarter regarding their respective duties.

- **Board Audit Committee.** The Board Audit Committee (**BAC**) is responsible for overseeing the Group's internal control framework. The BAC is responsible for assessing the effectiveness of the Group's internal control framework on a periodic basis through the evaluations carried out by the Group's Internal Audit function. The BAC reports the results of its assessment on the adequacy of existing controls and processes to the Board. The committee is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Head of Internal Audit. The BAC is also responsible for monitoring the performance of the Group's external auditors and co-ordinating with them on subjects related to audit and financial statements. The BAC also reviews the Group's financial results.

  The members of the BAC are: Mr. Hamad Mohamed Al-Bahar (Chairman), Mr. Haitham Sulaiman Humoud Al-Khaled and Mr. Loay Jassem Mohammed Al-Khorafi.

  A quorum of two is required to convene a meeting of the BAC. Only members of the BAC, the Secretary of the BAC and the Group Chief Internal Auditor are entitled to attend the committee's meetings.

- **Board Credit Committee.** The Board Credit Committee (**BCC**) is responsible for reviewing the quality and performance of the Group's credit portfolio, overseeing the effectiveness and administration of credit-related policies and reviewing and approving credit limits above certain thresholds. Membership of the BCC does not overlap with membership in either the BAC or the Board Risk Committee.

  The members of the BCC are: Mr. Hamad Abdul Aziz Al Hamad Al-Sager (Chairman), Mr. Yacoub Yousef Abdulaziz Al-Fulaij, Mr. Muthana Mohammed Ahmed Al-Hamad and Mr. Emad Mohammed Al-Bahar.

  The quorum for any meeting of the BCC is a minimum of two members.

- **Board Risk Committee.** The Board Risk Committee (**BRC**) is responsible for reviewing and monitoring the Group's risk profile, risk strategy, risk appetite and risk controls. It also administers and manages the Group's capital requirements by ensuring that the Group maintains an appropriate level and quality of capital and liquidity in line with its activities. The BRC also reviews the Group's internal capital adequacy assessment process, its stress test scenarios and the Group's risk appetite and key risks. In addition, the BRC reviews the Group's compliance risk processes, anticipates the impact of regulatory change, ensures accountability of risk management, and flags any high-risk actions or transactions as required internally and by regulators. The BRC is also responsible for the recruitment, dismissal, performance evaluation and remuneration recommendation of the Chief Risk Officer.

  The members of the BRC are: Mr. Ghassan Ahmed Saoud Al-Khaled (Chairman), Mr. Haitham Sulaiman Humoud Al-Khaled and Mr. Loay Jassem Mohammed Al-Kharafi.

  The quorum for any BRC meeting is two members.

- **Board Corporate Governance Committee.** The Board Corporate Governance Committee (**BCGC**) supervises the Group's Corporate Governance Office and supports the Board in reviewing the Group's corporate governance principles and practices at regular intervals. The Corporate Governance Office is a centralised and independent function at Group level that is responsible for ensuring effective implementation of the Group's corporate governance framework.

  The BCGC is responsible for monitoring the robustness of the governance policies and procedures that the Group has developed. The BCGC is also responsible for the effective implementation of the Bank's disclosure framework, which includes policies, procedures, templates, a disclosure register and a disclosure monitoring dashboard. The committee supervises the monitoring and reporting of conflicts of interest and related party transactions.

The members of the BCGC are: Mr. Nasser Musaed Abdullah Al-Sayer (Chairman), Mr. Hamad Abdul Aziz Al Hamad Al-Sager, Mr. Yacoub Yousef Abdulaziz Al-Fulaij and Mr. Muthana Mohamed Ahmed Al-Hamad.

A quorum of two members of the committee is required to convene a meeting. Only members of the committee and the Secretary of the committee are entitled to attend the committee meetings, although members of management and other specialists or professional advisers may be invited to attend meetings at the request of the committee.

- **Board Nomination and Remuneration Committee.** The Board Nomination and Remuneration Committee (**BNRC**) is responsible for overseeing the Group's succession planning process, the review of the Group's remuneration framework and suggesting recommendations with respect to executive management remuneration. In addition, the BNRC is responsible for nominating potential Board members, on-boarding and training of new Board members and training and raising the awareness of the Board. The committee also initiates and oversees the evaluation process of the Board and the Board committees. The committee is also supported by the Group's Corporate Governance Office.

  The members of the BNRC are: Mr. Ghassan Ahmed Saoud Al-Khaled (Chairman), Mr. Hamad Mohammed Al-Bahar and Mr. Emad Mohammed Al-Bahar.

  The quorum for BNRC meetings is two members. Only members of the committee and the Secretary of the BNRC are entitled to attend the committee meetings, although members of management and other specialists may be invited to attend meetings upon request of the committee.

Executive management

The Bank has a long-serving executive management team which is responsible for day-to-day supervision and control of the Group's business, particularly with respect to ensuring functionality of compliance and risk control, independence of functions, and separation of duties. Business policies, accounting policies and operations procedures and controls are documented and communicated through policies and standard operating procedures manuals which cover all areas and activities of the Group. All significant policies are reviewed and approved by the Board.

The Bank's executive management team comprises:

Name and position	Brief CV
Isam J. Al-Sager *Group Chief Executive Officer*	Mr. Al-Sager joined the Bank in 1978 and was appointed as CEO in March 2014. He had previously served as Deputy Group Chief Executive Officer since 2010. Mr. Al-Sager is Chairman of National Bank of Kuwait – Egypt. He also serves on the Board of Directors of NBK (International) PLC; 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, USA.
Shaikha K. Al-Bahar *Deputy Group Chief Executive Officer*	Ms. Al-Bahar joined the Bank in 1977, has been Deputy Group Chief Executive Officer since March 2014 and was previously Chief Executive Officer of the Bank's operations in Kuwait from 2010 onwards.

Ms. Al-Bahar is the Chair of National Bank of Kuwait (Lebanon) and serves on the Boards of NBK Global Asset Management Limited and The Turkish Bank, Turkey. She is also a board member of Mobile Telecommunication Company (Zain Group), Kuwait. She has extensive experience in privatisation, project finance, advisory services, bond issues, build/operate/transfer financing, initial public offerings, global deposit receipt programmes and private placements.

Ms. Al-Bahar holds a Bachelor of Science degree in International Marketing from Kuwait University and has attended specialised management and executive programmes at Harvard Business School, Stanford University and Duke University.

Salah Y. Al-Fulaij
Chief Executive Officer – Kuwait

Mr. Al-Fulaij joined the Bank in 1985 and was appointed as Chief Executive Officer – Kuwait in January 2015. He was previously the Chief Executive Officer of NBK Capital from 2007.

Prior to joining NBK Capital, Mr. Al-Fulaij held several key positions at the Bank and his last position was Group General Manager of Treasury and Investment Services.

Mr. Al-Fulaij is a graduate of the University of Miami where he received his Bachelor's degree in Industrial Engineering and his MBA in Business Management. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University.

George Richani
General Manager – International Banking Group

Mr. Richani joined the Bank in 1987 and has been the General Manager of the International Banking Group since 2012.

Former appointments within the Bank include Head of the Group Treasury and Asset Liability Management functions. He has extensive experience in treasury, funding and liquidity management, balance sheet management and market risk management (in particular, foreign exchange and interest rate risks) in addition to experience in investment management and capital markets, including global fixed-income markets.

Mr. Richani holds a Bachelor of Science degree from the American University of Beirut, Lebanon and a Master's degree in Business Administration in Finance from the City of London Business School. He has participated in a number of executive programmes at Harvard Business School, Stanford Graduate School of Business and Duke University.

Parkson Cheong
Group Chief Risk Officer

Mr. Cheong joined the Bank in 1993 and has been the Group Chief Risk Officer since 2008. He is the chairman or a member of several management-level supervisory committees at the Bank.

Mr. Cheong is experienced in commercial banking, syndicated lending, investment banking and corporate finance.

Mr. Cheong holds a Bachelor of Science degree in Economics from the University of Wales, United Kingdom, and a Master's degree in Business Administration in Finance from the Wharton School, University of Pennsylvania, U.S.A.

Jim Murphy
Group Chief Financial Officer

Mr. Murphy joined the Bank in 1999 and has been the Group Chief Financial Officer since 2010.

Prior to joining the Bank, Mr. Murphy was Head of Management Accounting for Ireland and the 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 from the Marketing Institute of Ireland.

Dr. Elias Bikhazi
Group Chief Economist

Dr. Bikhazi joined the Bank in 2008 and has been the Group Chief Economist since early 2013. He is also a Deputy General Manager within the Bank and heads the Bank's Economic Research Department.

Dr. Bikhazi has extensive experience in economic analysis and financial markets, including over 20 years' 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 degree and a Ph.D. (both in Economics) from the University of Southern California, USA.

Dr. Soliman Abdel-Meguid
General Counsel – Head of Legal Affairs Group

Dr. Abdel-Meguid joined the Bank in 2001, as General Counsel and Head of the Legal Affairs Group of the Bank.

He has more than 31 years' experience in legal affairs at Kuwaiti banks.

He holds a Ph.D. in Law from Cairo University and has authored several publications in the legal field.

Mustafa El-Gendi
General Manager – Domestic Corporate Banking Group

Mr. El-Gendi joined the Bank in 1979 and has been the General Manager of Domestic Corporate Banking at the Bank since 2013.

Mr. El-Gendi has extensive experience in all aspects of credit and corporate banking management.

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

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

Mr. Handa joined the Bank in 1980 and has been the General Manager of the Foreign Corporate, Oil and Trade Finance Group, since 2012.

Mr. Handa's former appointments at the Bank include: Assistant General Manager, Executive Manager and Senior Manager in the Corporate Banking Group of Kuwait. He has more than 30 years' experience in handling foreign corporate banking and oil and trade finance matters.

Mr. Handa holds a Master's degree from the University of Delhi, India.

Dimitrios Kokosioulis
General Manager – IT & Operations Group

Mr. Kokosioulis joined the Bank in 2013 as the General Manager, Operations Group.

Mr. Kokosioulis' former appointments include: Chief Operating Officer, Deputy Chief Operating Officer, Head of International Consumer Finance Operations, Vice President and as the Head of Retail and Cards Operations at various local and international banks in south-eastern and central-eastern Europe. He has experience in operations management, financial planning and analysis, project management, merger and acquisitions 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.

Malek J. Khalife
General Manager – Private Banking Group

Mr. Khalife joined the Bank in 2005 and has been the General Manager, Private Banking Group – Kuwait at the Bank since 2008. He is also a member of various management committees.

Mr. Khalife's last role prior to his current position at the Bank was as Director of Private Banking, Representative Office at an American bank in Lebanon. He has over 31 years' experience in private banking and financial markets in the Middle East and the GCC area.

Mr. Khalife holds a Master's degree in Economic Sciences from Saint Joseph University, Lebanon.

Carl Ainger
Group Chief Internal Auditor

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

Mr. Ainger's former appointments include Deputy Chief Internal Auditor at the Bank and Head of Internal Audit at a regional bank in Bahrain. He has extensive experience in internal audit (across the international banking industry) as well as external audit and consulting experience in the United Kingdom.

Mr. Ainger holds a Master's degree in Business Administration from the University of Strathclyde, United Kingdom.

Emad Al-Ablani
General Manager – Human Resources Group

Mr. Al-Ablani joined the Bank in March 2003 and was appointed as the General Manager, Human Resources in 2014. He is also a member of various management committees.

His previous roles with the Bank include Deputy General Manager, Head of Human Resources – Kuwait and Assistant General Manager of Recruitment and HR Operations. His experience in human resources spans over 23 years.

Mr. Al-Ablani holds an Executive Master's degree in Business Administration from the American University of Beirut and a Bachelor of Arts degree in Educational Psychology from Kuwait University.

The business address of each member of senior management is National Bank of Kuwait S.A.K.P., P.O. Box 95 Safat, 13001 Kuwait, Abdullah Al Ahmad Street, Sharq, State of Kuwait. No member of the Bank's executive management has any actual or potential conflict of interest between his duties to the Bank and his private interests and/or other duties.

Executive committees

The Bank's executive committees include the credit committees described under "*Risk Management—Credit risk—Credit risk management strategy*", the Group Executive Committee and the Group Asset Liability Executive Committee.

Group Executive Committee

The Group Executive Committee is responsible for implementing the Group's strategy, for staff policies and for exceptional and delicate subjects and their implementation.

Group Asset Liability Executive Committee

The Group Asset Liability Executive Committee (**ALEC**) is a senior management committee that determines matters relating to liquidity risk, interest rate risk, balance sheet management and trading activities. The role of the ALEC is to ensure that policies and internal guidelines approved by the Group Executive Committee and other Group management committees are adhered to.

EMPLOYEES

The Group's human resources policy is designed to attract, retain and motivate high-calibre, professional, skilled and knowledgeable employees. The Group protects and abides by the rights provided to employees which include, but are not limited to: a transparent working environment; employee talent-management schemes; a transparent remuneration and compensation structure and access to a "whistleblowing" policy (which enables all employees to raise concerns in good faith and confidence directly to the Chairman).

The Group has developed a "High-Fliers" programme to provide employees identified as possessing leadership potential with exposure to various departments within the Group. In line with its commitment to develop and invest in its key "human capital" resources, the Group collaborates with world-class universities to provide these employees with training in a wide range of leadership disciplines.

As at 31 December 2014, the Group employed 5,479 full-time staff compared to 5,308 full-time staff at 31 December 2013.

The Bank is committed to identifying, attracting and developing Kuwaiti nationals in its workforce. The Kuwaiti government's recommended policy is that 64 per cent. of a bank's total personnel should consist of Kuwaiti nationals. The Bank's Kuwaitisation level as at 31 December 2014 was 64 per cent. and it is currently in compliance with all other applicable employment regulations. The Bank was awarded "*Best Institution in Recruiting Local Talent in the GCC*", for the third consecutive year, in 2013.

SELECTED FINANCIAL INFORMATION

The following information has been extracted from, and should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements. See also "Presentation of certain financial and other information" for a discussion of the sources of the numbers contained in this section.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA

The table below shows the Group's consolidated statement of financial position data as at 31 December in each of 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
		(KD million)	
ASSETS			
Cash and short term funds	3,132	2,412	1,611
Central Bank of Kuwait bonds	535	534	614
Kuwait Government treasury bonds	345	320	356
Deposits with banks	2,051	900	1,203
Loans, advances and Islamic financing to customers	11,909	10,695	9,861
Investment securities	2,494	2,350	1,577
Investment in associates	119	260	213
Land, premises and equipment	203	192	191
Goodwill and other intangible assets	696	700	723
Other assets	162	236	143
Investment in an associate held for sale	138	—	—
Total assets	**21,784**	**18,600**	**16,492**
LIABILITIES			
Due to banks and other financial institutions	6,706	4,945	4,155
Customer deposits	11,260	10,478	9,508
Certificates of deposit issued	675	241	—
Other liabilities	273	224	214
Total liabilities	**18,914**	**15,888**	**13,876**
EQUITY			
Share capital	480	457	435
Proposed bonus shares	24	23	22
Statutory reserve	240	229	218
Share premium account	700	700	700
Treasury shares	(79)	(80)	(79)
Treasury share reserve	15	16	18
Other reserves	1,273	1,165	1,113
Equity attributable to shareholders of National Bank of Kuwait S.A.K.P.	2,653	2,509	2,427
Non-controlling interests	217	203	189
Total equity	**2,871**	**2,712**	**2,616**
Total liabilities and equity	**21,784**	**18,600**	**16,492**

CONSOLIDATED STATEMENT OF INCOME DATA

The table below shows the Group's consolidated statement of income data for each of 2014, 2013 and 2012.

Consolidated statement of income data

	2014	2013	2012
		(KD million)	
Interest income	514	489	491
Interest expense	114	102	119
Net interest income	**399**	**388**	**373**
Murabaha and other Islamic financing income	87	74	30
Distribution to depositors and Murabaha costs	17	10	5
Net income from Islamic financing	**70**	**64**	**25**
Net interest income and net income from Islamic financing	**469**	**451**	**398**
Net fees and commissions	122	111	103
Net investment income	33	19	110
Net gains from dealing in foreign currencies	27	26	24
Share of results of associates	8	16	13
Other operating income	2	3	1
Non-interest income	**192**	**175**	**252**
Net operating income	**661**	**626**	**650**
Staff expenses	122	115	102
Other administrative expenses	72	72	64
Depreciation of premises and equipment	15	15	14
Amortisation of intangible assets	5	6	4
Operating expenses	**215**	**207**	**184**
Operating profit before provision for credit losses and impairment losses	**446**	**419**	**466**
Provision charge for credit losses	136	144	124
Impairment losses	11	5	15
Operating profit before taxation	**299**	**270**	**327**
Taxation	26	19	19
Profit for the year	**274**	**252**	**309**
Attributable to:			
Shareholders of National Bank of Kuwait S.A.K.P.	262	238	305
Non-controlling interests	12	13	3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME DATA

The table below shows the Group's consolidated statement of comprehensive income data for each of 2014, 2013 and 2012.

	2014	2013	2012
		(KD million)	
Profit for the year	**274**	**252**	**309**
Other comprehensive income:			
Other comprehensive income reclassified to consolidated statement of income:			
Net gains on investments available for sale	(27)	(14)	(27)
Impairment losses on investments available for sale	11	5	15
Other comprehensive income to be reclassified to consolidated statement of income in subsequent years:			
Change in fair value of investments available for sale	25	14	16
Share of other comprehensive income of associates	0	2	1
Exchange differences on translation of foreign operations	9	(38)	(3)
Other comprehensive income (loss) for the year included in equity	19	(30)	1
Total comprehensive income for the year	**293**	**221**	**310**
Attributable to:			
Shareholders of National Bank of Kuwait S.A.K.P.	279	212	306
Non-controlling interests	13	9	5

CONSOLIDATED STATEMENT OF CASH FLOW DATA

The table below summarises the Group's consolidated statement of cash flow data for each of 2014, 2013 and 2012.

	2014	2013	2012
		(KD million)	
Net cash from operating activities	976	1,781	466
Net cash from/(used in) investing activities	(130)	(811)	82
Net cash used in financing activities	(134)	(131)	(205)
Cash and short-term funds at the beginning of the year	2,412	1,611	1,271
Cash and short term funds at the end of the year	3,132	2,412	1,611

SELECTED RATIOS

The table below shows selected consolidated ratios of the Group as at and for the years ended 31 December 2014, 31 December 2013 and 31 December 2012.

	As at/year ended 31 December		
	2014	2013	2012
		(per cent.)	
Performance measures			
Return on average assets[(1)]	1.28	1.32	2.03
Return on average equity[(2)]	10.5	10.0	13.4
Cost to income ratio[(3)]	32.5	33.1	28.3
Financial ratios			
Net interest margin[(4)]	2.45	2.70	2.86
Net profit margin[(5)]	39.6	38.0	46.9
Asset quality			
Impaired loans ratio[(6)]	1.50	1.96	2.75
Loan loss coverage ratio[(7)]	276.1	199.8	157.1
Liquid assets ratio[(8)]	38.8	34.6	32.4
Loans to customer and financial institution deposits ratio[(9)]	78.1	76.8	79.5
Other ratios			
Core equity tier 1 capital adequacy ratio[(10)]	13.2		
Tier 1 capital adequacy ratio[(11)]	13.3	16.8	17.7
Total capital adequacy ratio[(11)]	14.5	17.3	18.3
Leverage ratio[(12)]	7.8		

Notes:

(1) Profit for the year attributable to shareholders of the Bank divided by average assets for the year, with average assets calculated as the sum of assets on a quarterly basis divided by five.

(2) Profit for the year attributable to shareholders of the Bank divided by average shareholders' equity for the year, with average shareholders' equity calculated as the sum of shareholders' equity on a quarterly basis divided by five.

(3) Operating expenses divided by net operating income.

(4) Net interest income and net income from Islamic financing divided by average interest earning assets for the year, with average interest earning assets calculated as the sum of interest earning assets on a quarterly basis divided by five. Interest earning assets comprise cash and short-term funds, Central Bank of Kuwait bonds, Kuwait Government treasury bonds, deposits with banks, loans, advances and Islamic financing to customers and investment securities.

(5) Profit for the year attributable to shareholders of the Bank divided by net operating income for the year.

(6) Impaired loans as a percentage of total gross loans.

(7) Loan loss provisions as a percentage of impaired loans.

(8) Sum of liquid funds, trading securities, non-trading securities and placements divided by total assets.

(9) Total loans divided by the sum of deposits from customers and deposits from financial institutions.

(10) For the year ended 31 December 2014, calculated in accordance with the requirements of the Central Bank of Kuwait and the capital adequacy regulations issued by the CBK as stipulated in CBK Circular number 2/RB, RBA/A336/2014 dated 24 June 2014 (**Basel III, as implemented in Kuwait**).

(11) For the years ended 31 December 2013 and 2012, calculated in accordance with CBK Circular number 2/BS/184/2005 dated 21 December 2005 (based on Basel II framework) and, for the year ended 31 December 2014, calculated in accordance with Basel III, as implemented in Kuwait.

(12) For the year ended 31 December 2014, calculated in accordance CBK Circular number 2/BS/342/2014 dated 21 October 2014.

FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of financial and other information", "Selected financial information" and the Financial Statements.

*The discussion of the Group's financial condition and results of operations is based upon the Financial Statements which have been prepared in accordance with IFRS as adopted by Kuwait for financial services institutions regulated by the CBK. These regulations require the adoption of all IFRS requirements except for the International Accounting Standard (**IAS**) 39, 'Financial Instruments: Recognition and Measurement', requirement for a collective provision. This has been replaced by the CBK's requirement for a minimum general provision to be made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings "Forward-looking statements" and "Risk factors".*

See "Presentation of financial and other information" for a discussion of the source of the numbers presented in this section and certain other relevant information.

OVERVIEW

The Group is Kuwait's largest bank in terms of total assets, total customer loans and advances and total deposits based on annual reports published by Kuwaiti banks (see "*Description of the Group—Competition in Kuwait*"). The Group is primarily a regional bank lending principally to companies and individuals in Kuwait and the wider MENA region. The Group's core businesses are conventional consumer and corporate banking, although it also owns a majority shareholding in an Islamic bank and offers investment banking and asset management through its subsidiary, NBK Capital.

The Group's principal focus is on defending and growing its leadership position in Kuwait whilst also diversifying its business geographically and by products offered. See "*Description of the Group—Strategy*".

As at 31 December 2014, the Group's customer loan portfolio aggregated KD 11,909 million and its total customer deposits were KD 11,260 million. In 2014, the Group's net operating income was KD 661 million and its profit for the year was KD 274 million, of which KD 262 million was attributable to the shareholders of the Bank.

PRINCIPAL FACTORS AFFECTING RESULTS OF OPERATIONS

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

Economic conditions

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

According to the CBK and the CSB, Kuwait's real GDP increased by 1.5 per cent. in 2013 compared to 2012. This growth principally related to the non-oil sector, which grew by 5.9 per cent. in 2013 compared to a decline of 0.8 per cent. in the oil sector. The increases in Kuwait's non-oil sector's real GDP in 2013 were driven by increases of 13.9 per cent. in manufacturing, 10.8 per cent. in wholesale and retail trade and 7.8 per cent. in transport, storage and communications. Based on the IMF's October 2014 World Economic Database, Kuwait's real GDP is projected to have grown by 1.4 per cent. in 2014 and to grow by 1.8 per cent. in 2015. According to the IMF's December 2014 Staff Report on its Article IV Consultation with Kuwait, Kuwait's near- and medium-term economic outlook is favourable. Non-oil GDP growth in Kuwait is expected to average between 4.0 and 5.0 per cent. in the medium term, supported by government investment in infrastructure and the oil sector, and by consumption, with the main downside risk being a prolonged period of lower global oil demand and prices which could result in lower fiscal and external revenues and a decline in private sector confidence.

In addition, any sustained failure by the Kuwaiti government and parliament to implement the Kuwait Development Plan (defined below) or delay in implementing the plan could affect overall business confidence and the investment climate in Kuwait, and result in lower non-oil growth than projected, see "*Overview of Kuwait—Economic Overview*".

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

Factors affecting net interest income and net income from Islamic financing

The Group's net interest income and net income from Islamic financing (together, **net financing income**) is a major contributor to its total net operating income, comprising 71.0 per cent. of net operating income in 2014, 72.1 per cent. in 2013 and 61.2 per cent. in 2012. Within net financing income:

- interest earned on loans and advances to customers is the major contributor to total interest income and income from Islamic financing (together, **total financing income**), comprising 65.0 per cent. of total financing income in 2014, 68.9 per cent. in 2013 and 76.3 per cent. in 2012, with interest income from debt investment securities and murabaha and other Islamic financing income comprising 15.0 per cent. and 14.5 per cent., respectively, of total financing income in 2014, 13.9 per cent. and 13.1 per cent., respectively, in 2013 and 13.7 per cent. and 5.7 per cent., respectively, in 2012; and
- interest paid on customer deposits is the major contributor to total interest expense and Islamic financing costs (together, **total financing expense**), comprising 63.1 per cent. of total financing expense in 2014, 67.7 per cent. in 2013 and 66.1 per cent. in 2012.

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

The changes in the Group's net financing income for 2014 compared to 2013 have principally been driven by increased interest income from debt investment securities reflecting increased volumes of investments and increased interest income from deposits with banks reflecting increased wholesale activity across the Group. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 11,302 million for 2014 compared to KD 10,278 million for 2013, an increase of KD 1,024 million, or 10.0 per cent.

The changes in the Group's net financing income for 2013 compared to 2012 were principally driven by the consolidation of Boubyan Bank which is discussed under "*—Consolidation of Boubyan Bank in 2012*" below and declining interest expense as a result of increased liquidity in the domestic market and the renewal of deposits at relatively lower rates. Both interest income and interest expense were impacted in 2013 by a CBK discount rate cut of 50 basis points to 2.0 per cent. in October 2012, since when the discount rate has remained unchanged. The CBK's discount rate directly impacts the interest rates chargeable by the Group on its Kuwaiti dinar-denominated customer loans, as these rates are capped at prescribed percentages above the CBK discount rate. See "*Banking industry and regulation in Kuwait—Certain banking regulations—Interest rates*". This discount rate cut more than offset the positive effect of increased volumes of both loans and deposits. The Group's average customer loan portfolio (based on balances as at the start and end of each year) was KD 10,278 million for 2013 compared to KD 9,021 million for 2012, an increase of KD 1,257 million, or 13.9 per cent.

Principally reflecting the factors described above, the Group's net financing margin (being its net financing income divided by its average interest-earning assets for the year, with average interest-earning assets calculated as the sum of interest-earning assets on a quarterly basis divided by five) decreased in 2014 to 2.4 per cent. from 2.7 per cent. in 2013 and 2.9 per cent. in 2012 and the Group's financing spread (being the difference between the yield (interest income and financing income divided by average interest income and financing income-earning assets) and cost of funds (interest expense and financing cost divided by the average interest expense and financing cost-bearing liabilities on a quarterly basis divided by five)) decreased in 2014 to 2.4 per cent. from 2.6 per cent. in 2013 and 2.8 per cent. in 2012.

Movements in provision charge for credit losses

The Group's provision charge for credit losses for 2014 was KD 136 million compared to KD 144 million for 2013 and KD 124 million in 2012. In 2014, the provisioning charge comprised KD 49 million in specific provisioning and KD 87 million in general provisions, in each case principally against corporate cash facilities. In 2013, the provisioning charge comprised KD 67 million in specific provisioning and KD 77 million in general provisioning, again principally against corporate cash facilities. In 2012, the provisioning charge comprised KD 73 million in specific provisioning and KD 51 million in general provisioning, again principally against corporate cash facilities.

The decrease in specific provisions in each year principally reflected a decline in the level of non-performing loans. In accordance with IFRS as adopted in Kuwait and CBK regulations related to provisions, banks are permitted to make precautionary general provisions and the increase in the Group's general provisions in 2014 and 2013 reflected its policy of increasing the general provision level to levels perceived as appropriate by management at the Bank.

Consolidation of Boubyan Bank in 2012

In 2012, the Group acquired an additional equity interest of 11.1 per cent. in Boubyan Bank, increasing its effective equity interest to 58.4 per cent. Having obtained control, the Group reclassified the investment in Boubyan Bank from associate to subsidiary and consolidated the financial statements of Boubyan Bank from 31 July 2012 (the effective acquisition date). Boubyan Bank is incorporated in the State of Kuwait and is engaged in providing Islamic banking services.

As the business combination was achieved in stages, in accordance with IFRS 3: Business Combinations, the Group remeasured its previously held equity interest in Boubyan Bank at the effective acquisition date fair value and recognised the resulting gain in the consolidated statement of income. The effective acquisition date fair value amounted to KD 453 million and the gain on remeasurement amounted to KD 82 million which is included under investment income in the 2012 consolidated statement of income.

The 2012 consolidated statement of income of the Group includes operating income of KD 25 million of Boubyan Bank. Had the acquisition of Boubyan Bank taken place at 1 January 2012, the operating income of the Group for 2012 would have been higher by KD 33 million.

SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRS as adopted for use by Kuwait. For a discussion of the accounting policies applied by the Group generally, see note 2 to the 2014 Financial Statements.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Group's financial statements, management is required to make certain estimates, judgments and assumptions. These affect the reported amounts of the Group's assets and liabilities, including disclosure of contingent assets and liabilities, as at the date of the financial statements as well as the reported amounts of its revenues and expenses during the periods presented. Management bases its estimates and assumptions on historical experience and other factors that it believes to be reasonable at the time the estimates and assumptions are made and evaluates the estimates and assumptions on an ongoing basis. However, future events and their effects cannot be predicted with certainty and the determination of appropriate estimates and assumptions requires the use of judgment. Actual outcomes may differ from any estimates or assumptions made and such differences may be material to the financial statements. For a discussion of the most significant accounting estimates, judgments and assumptions made in the preparation of the Group's financial statements, see note 2.36 to the 2014 Financial Statements.

RESULTS OF OPERATIONS

Net interest income

Interest income is the Group's principal source of income. The Group earns interest income on the customer loans and advances made by it, on its portfolio of debt investment securities and on its deposits with central banks and other banks. The Group incurs interest expense on its customer, bank and other financial institution deposits and on the certificates of deposit which it issues. Interest income and expense is recognised in the income statement using the effective interest method, as explained in note 2.5 to the 2014 Financial Statements.

The table below shows a breakdown of the Group's net interest income in each of 2014, 2013 and 2012.

	2014		2013		2012	
	(KD million)	*(% of total)*	*(KD million)*	*(% of total)*	*(KD million)*	*(% of total)*
Interest income						
Deposits with banks	23	4.5	14	2.9	11	2.3
Loans and advances to customers	391	76.1	388	79.3	398	81.0
Debt investment securities	90	17.6	78	16.0	71	14.5
Other	10	1.9	9	1.9	11	2.3
Total interest income	**514**	**100.0**	**489**	**100.0**	**491**	**100.0**
Interest expense						
Due to banks and other financial institutions	30	26.4	26	25.3	37	31.3
Customer deposits	83	72.6	76	74.4	82	68.7
Certificates of deposit issued	1	0.9	0	0.3	—	—
Total interest expense	**114**	**100.0**	**102**	**100.0**	**119**	**100.0**
Net interest income	**399**		**388**		**373**	

The Group's total interest income for 2014 amounted to KD 514 million compared to KD 489 million for 2013 and KD 491 million for 2012. The increase of KD 25 million, or 5.1 per cent., in 2014 principally reflected a KD 12 million, or 15.3 per cent., increase in interest income from debt investment securities and a KD 9 million, or 64.3 per cent., increase in interest income from deposits with banks. The decrease of KD 2 million in 2013 principally reflected falls of KD 10 million in interest income from loans and advances to customers which was offset by a KD 7 million increase in interest income from debt investment securities. See "*Principal factors affecting results of operations—Factors affecting net interest income and net income from Islamic financing*" for a discussion of the reasons for these changes in interest income.

The Group's total interest expense for 2014 amounted to KD 114 million compared to KD 102 million for 2013 and KD 119 million for 2012. The increase of KD 12 million, or 12.2 per cent., in 2014 principally reflected a KD 7 million, or 9.6 per cent., increase in interest expense on customer deposits and a KD 4 million, or 17.4 per cent., increase in interest expense on amounts owed to banks and other financial institutions. The KD 17 million fall in 2013 reflected a KD 11 million fall in interest expense on amounts owed to banks and other financial institutions and a KD 6 million fall in interest expense on customer deposits. See "*Principal factors affecting results of operations—Factors affecting net interest income and net income from Islamic financing*" for a discussion of the reasons for these changes in interest expense.

Reflecting the above factors, the Group's net interest income in 2014 amounted to KD 399 million, an increase of KD 12 million, or 3.0 per cent., from the KD 388 million net interest income recorded in 2013 which, in turn, was a KD 15 million, or 4.0 per cent., increase from the KD 373 million net interest income recorded in 2012.

Net income from Islamic financing

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

The Group's Islamic financing income for 2014 amounted to KD 87 million compared to KD 74 million for 2013 and KD 30 million for 2012. The increase of KD 13 million, or 17.9 per cent., in 2014 principally reflected growth in the volume of the Group's Islamic financing extended to customers. The increase of KD 44 million, or 148.1 per cent., in 2013 principally reflected the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

The Group's Islamic financing cost for 2014 amounted to KD 17 million compared to KD 10 million for 2013 and KD 5 million for 2012. The increase of KD 7 million, or 70.7 per cent., in 2014 principally reflected growth in the volume of the Group's Islamic deposits accepted. The increase of KD 5 million, or 116.7 per cent., in 2013 principally reflected the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

Reflecting the above factors, the Group's net income from Islamic financing in 2014 amounted to KD 70 million, an increase of KD 6 million, or 9.6 per cent., from the KD 64 million net income from Islamic financing recorded in 2013 which, in turn, was a KD 39 million, or 154.0 per cent., increase from the KD 25 million net income from Islamic financing recorded in 2012.

Net fees and commissions

The Group earns fees and commissions on customer loans advanced by it, on other credit facilities (such as commitments to lend made by it and letters of credit and guarantees issued by it), and on other bank services provided by it, including asset management, account servicing and syndication fees and card-related fees. The Group pays fees and commissions principally in respect of cards.

The Group's total fee and commission income for 2014 amounted to KD 141 million compared to KD 128 million for 2013 and KD 117 million for 2012. The increase of KD 14 million, or 10.6 per cent., in 2014 principally reflected increased trade finance activity, as well as increases in card, asset management and account servicing fees. The increase of KD 11 million, or 9.0 per cent., in 2013 principally reflected the same factors as well as an increase in lending fees.

The Group's fee and commission expense for 2014 amounted to KD 20 million compared to KD 17 million for 2013 and KD 14 million in 2012. The increase of KD 3 million, or 15.9 per cent., in 2014 and the increase of KD 3 million, or 21.7 per cent., in 2013 principally reflected an increase in card-related activities.

Reflecting the above factors, the Group's net fee and commission income for 2014 amounted to KD 122 million, an increase of KD 11 million, or 9.8 per cent., from the KD 111 million net fee and commission income recorded for 2013 which, in turn, was an increase of KD 8 million, or 7.3 per cent., from the KD 103 million net fee and commission income recorded for 2012.

Other sources of operating income

The Group's other sources of operating income principally include net investment income, net gains from dealing in foreign currencies and its share of the results of its associates.

The Group's other sources of operating income amounted to KD 70 million for 2014 compared to KD 64 million for 2013 and KD 149 million in 2012.

The increase of KD 6 million, or 9.5 per cent., in 2014 principally reflected a KD 14 million, or 76.9 per cent., increase in net investment income which was offset by a KD 9 million, or 53.0 per cent., decrease in share of results from associates. The principal driver of the increase in the Group's net investment income in 2014 was a KD 13 million, or 93.1 per cent., increase in net realised gains on available for sale investments, which reflected realised gains on the sale of equity and debt investment securities. The fall in the Group's share of the results of its associates in 2014 reflected the fact that on 1 October 2014 the Group agreed to sell its 30 per cent. investment in International Bank of Qatar Q.S.C. meaning that it only recognised a nine-month share in the results of that associate and the fact that its other significant associate, Bank Syariah Muamalat Indonesia T.B.K., recorded a loss in 2014 compared to a profit in 2013.

The fall of KD 85 million, or 57.1 per cent., in the Group's other sources of operating income in 2013 principally reflected a KD 91 million fall in net investment income which was primarily driven by the valuation gain made on the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

Operating expenses

The Group's operating expenses comprise staff costs, other administrative expenses, depreciation and amortisation.

The table below shows a breakdown of the Group's operating expenses in each of 2014, 2013 and 2012.

	2014		**2013**		**2012**	
	(KD million)	*(% of total)*	*(KD million)*	*(% of total)*	*(KD million)*	*(% of total)*
Staff expenses	122	56.9	115	55.5	102	55.6
Other administrative expenses	72	33.7	72	34.7	64	34.7
Depreciation of premises and equipment	15	7.1	15	7.0	14	7.5
Amortisation of intangible assets	5	2.4	6	2.8	4	2.2
Total operating expenses	**215**	**100.0**	**207**	**100.0**	**184**	**100.0**

The Group's total operating expenses amounted to KD 215 million for 2014 compared to KD 207 million for 2013 and KD 184 million for 2012. The increase of KD 8 million, or 3.9 per cent., in 2014 principally reflected a KD 7 million, or 6.5 per cent., increase in staff expenses which resulted from both increased headcount and increased annual pay. The increase of KD 23 million, or 12.7 per cent., in 2013 principally reflected a KD 13 million, or 12.5 per cent., increase in staff expenses and a KD 8 million, or 12.6 per cent., increase in other administrative expenses which principally reflected the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

Provision charges and impairment losses

At each reporting date and in accordance with both CBK regulations relating to the method of calculating specific provisions and estimates made in accordance with IAS 39 as adopted for use by Kuwait for financial institutions regulated by the CBK, the Group assesses its financial assets for objective evidence of impairment. In particular:

- all individually significant loans and advances to customers are assessed for specific impairment in accordance with IAS 39;
- specific impairment losses on assets carried at amortised cost (including the Group's customer loan portfolio) are measured as the difference between the carrying amount of the relevant asset and the present value of the estimated future cash flows from it discounted at the asset's original effective interest rate;
- a minimum general provision is made on all credit facilities net of certain categories of collateral as mandated by the CBK, with additional general provisions being made at management's discretion with the approval of the CBK; and
- impairment losses on available for sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to the income statement as a reclassification adjustment.

For further information, see note 2.9 to the 2014 Financial Statements.

The table below shows details of the Group's provision charges and impairment losses in each of 2014, 2013 and 2012.

	2014	2013	2012
		(KD million)	
Provision charge for credit losses			
Specific	49	67	73
General	87	77	51
Total provision charge for credit losses	**136**	**144**	**124**
Impairment loss on investment securities	11	5	15
Total	**147**	**149**	**139**

The Group's total provision charge and impairment loss amounted to KD 147 million for 2014 compared to KD 149 million for 2013 and KD 139 million for 2012.

The KD 2 million, or 1.4 per cent., decrease in 2014 reflected a KD 8 million, or 5.6 per cent., fall in the provision charge for credit losses (as to which see "*Principal factors affecting results of operations—Movements in provision charge for credit losses*") which was offset by a KD 6 million, or 115.2 per cent., increase in impairment loss on available for sale investments. The higher impairment charge on the available for sale investments portfolio in 2014 reflected a decline in value of the Group's investments in equities and funds.

The KD 10 million, or 7.0 per cent., increase in 2013 reflected a KD 20 million, or 15.5 per cent., increase in the provision charge for credit losses (as to which see "*Principal factors affecting results of operations—Movements in provision charge for credit losses*") which was offset by a KD 10 million, or 64.8 per cent., fall in impairment loss on available for sale investments.

Operating profit before taxation

Reflecting the above factors, the Group's operating profit before taxation for 2014 was KD 299 million compared to KD 270 million for 2013 and KD 327 million in 2012, an increase of KD 29 million, or 10.7 per cent., in 2014 and a fall of KD 57 million, or 17.4 per cent., in 2013 principally reflected the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

Taxation

The Group's taxation charge comprises the tax paid by its overseas branches and subsidiaries, national labour support tax charged in Kuwait, its contribution to the Kuwait Foundation for the Advancement of Sciences and its Zakat charge. Together, these amounted to KD 26 million for 2014 compared to KD 19 million for each of 2013 and 2012, with the KD 7 million, or 35.6 per cent., increase in 2014 principally reflecting increases in the tax paid by the Group's overseas operations and an increase in the national labour support tax.

Profit for the year

Reflecting the above factors, the Group's profit for 2014 was KD 274 million compared to KD 252 million for 2013 and KD 309 million in 2012, an increase of KD 22 million, or 8.8 per cent. in 2014 and a fall of KD 57 million, or 18.5 per cent., in 2013 principally reflected the consolidation of Boubyan Bank, see "*Principal factors affecting results of operations—Consolidation of Boubyan Bank in 2012*".

The Group's profit attributable to shareholders of the Bank for 2014 was KD 262 million compared to KD 238 million for 2013 and KD 305 million in 2012, an increase of KD 24 million, or 9.9 per cent. in 2014 and a fall of KD 67 million, or 22 per cent., in 2013.

Other comprehensive income/(loss)

The Group's other comprehensive income/(loss) principally comprises exchange differences on translation of foreign operations, changes in the fair value of its available for sale investments, recycling of impairment losses and net gains on sale of its available for sale investments.

In 2014, the Group recorded KD 9 million in exchange gains on translation of foreign operations compared to KD 38 million in exchange losses in 2013. The Group's impairment losses on available for sale investments gave rise to KD 11 million of other comprehensive income in 2014 compared to KD 5 million in 2013. In each of 2014 and 2013, the positive change in the fair value of the Group's available for sale investments was substantially offset by the recycling of net gains on its available for sale investments that were transferred to the income statement.

In 2013, the Group recorded KD 38 million in exchange losses on translation of foreign operations compared to KD 3 million in exchange losses in 2012. The Group's impairment losses on available for sale investments gave rise to KD 5 million of other comprehensive income in 2013 compared to KD 15 million in 2012. In 2012, the positive change in the fair value of its available for sale investments of KD 16 million was offset by the recycling of net gains of KD 27 million on its available for sale investments that were transferred to the income statement.

Total comprehensive income for the year

Reflecting the above factors and the Group's profit for the year, the Group's total comprehensive income for 2014 was KD 293 million compared to KD 221 million for 2013 and KD 310 million for 2012, an increase of KD 71 million, or 32.1 per cent. in 2014 and a fall of KD 89 million, or 28.6 per cent., in 2013.

Segmental analysis

The Group's reporting segments comprise:

- **Consumer and private banking.** Consumer banking provides a diversified range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange and other branch-related services. Private banking provides customised banking services to high net worth individuals and institutional clients;
- **Corporate banking**, which provides a comprehensive product and service offering to business and corporate customers, including lending, deposit taking, trade finance, foreign exchange and advisory services;
- **Investment banking and asset management.** Investment banking provides capital market advisory and execution services. Asset management provides wealth management, asset management, custody, brokerage and research services;

- **Islamic banking.** Islamic banking represents the financial results of Boubyan Bank, the Group's Islamic banking subsidiary;
- **Group centre**, which includes treasury, investments and other Group activities. Treasury provides treasury services to its clients and is also responsible for the Group's liquidity and market risk management. Group centre also includes any residual in respect of transfer pricing and inter-segment allocations; and
- **International**, which comprises the activities of all branches, subsidiaries and associates outside Kuwait.

The tables below show certain income statement line items of each of the Group's reporting segments for each of 2014 and 2013. See "*Presentation of financial and other information—Presentation of financial information—Historical financial statements*" for an explanation as to why 2012 information has not been included.

	Consumer and private banking	Corporate banking	Investment banking and asset management	Islamic banking	Group centre	International	Total
				(KD million)			
2014							
Net financing income	160	115	0.2	70	17	107	**469**
Net operating income	214	156	26	81	31	154	**661**
Profit/(loss) for the year	135	108	14	29	(85)	74	**274**
2013							
Net financing income	153	123	0.2	64	24	89	**451**
Net operating income	202	165	24	69	26	140	**626**
Profit/(loss) for the year	115	102	13	13	(61)	70	**252**

	Consumer and private banking	Corporate banking	Investment banking and asset management	Islamic banking	Group centre	International	Total
				(per cent.)			
2014							
Net financing income	34.1	24.6	0.0	14.9	3.6	22.8	**100.0**
Net operating income	32.3	23.6	4.0	12.2	4.7	23.3	**100.0**
2013							
Net financing income	33.8	27.2	0.0	14.1	5.2	19.6	**100.0**
Net operating income	32.3	26.3	3.9	11.0	4.1	22.4	**100.0**

Note:

No percentage breakdown for profit/loss for the year is provided as it would not be meaningful given the losses recorded by the Group centre reporting segment.

Consumer and private banking

Consumer and private banking recorded net operating income of KD 214 million in 2014 compared to KD 202 million in 2013. The increase of KD 11 million, or 5.6 per cent., principally reflected growth in business activities. Consumer and private banking's segment profit was KD 135 million in 2014 compared to KD 115 million in 2013, an increase of KD 20 million, or 17.5 per cent., principally reflecting growth in net operating income and provision releases.

Corporate banking

Corporate banking recorded net operating income of KD 156 million in 2014 compared to KD 165 million in 2013. The decrease of KD 9 million, or 5.5 per cent., principally reflected a fall in net interest income resulting from tighter margins. Corporate banking's segment profit was KD 108 million in 2014 compared to KD 102 million in 2013, an increase of KD 5 million, or 5.3 per cent., principally reflecting lower loan provisions in 2014.

Investment banking and asset management

Investment banking and asset management recorded net operating income of KD 26 million in 2014 compared to KD 24 million in 2013. Investment banking and asset management's segment profit was KD 14 million in 2014 compared to KD 13 million in 2013.

Islamic banking

Islamic banking recorded net operating income of KD 81 million in 2014 compared to KD 69 million in 2013, see "*—Net income from Islamic financing*" above. Islamic banking's segment profit was KD 29 million in 2014 compared to KD 13 million in 2013, an increase of KD 16 million, or 124.1 per cent., principally reflecting strong growth in operating performance and lower provisions in 2014.

Group centre

Group centre recorded net operating income of KD 31 million in 2014 compared to KD 26 million in 2013. The increase of KD 5 million, or 21.1 per cent., principally reflected realised gains on the sale of investments. Group centre's segment loss was KD 85 million in 2014 compared to KD 61 million in 2013, an increase of KD 24 million, or 39.5 per cent., principally reflecting higher precautionary general loan provisions in 2014.

International

International recorded net operating income of KD 154 million in 2014 compared to KD 140 million in 2013, an increase of KD 13 million, or 9.4 per cent. International's segment profit was KD 74 million in 2014 compared to KD 70 million in 2013, an increase of KD 4 million, or 6.4 per cent. Both increases were driven by higher net interest income.

LIQUIDITY AND FUNDING

Overview

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

Liquidity

The table below shows the Group's cash flow from operating activities, investing activities and financing activities for each of 2014, 2013 and 2012.

	2014	2013	2012
		(KD million)	
Net cash from operating activities	976	1,781	466
Net cash from/(used in) investing activities	(130)	(811)	82
Net cash used in financing activities	(134)	(131)	(205)
Cash and short-term funds at the beginning of the year	2,412	1,611	1,271
Cash and short-term funds at the end of the year	3,132	2,412	1,611

Net cash from operating activities for 2014 was KD 976 million compared to KD 1,781 million for 2013 and KD 466 million for 2012. The Group's net cash from operating activities before changes in operating assets and liabilities principally reflects its profit for the year adjusted to reflect its provision charge for credit losses and, in 2012, its net investment income.

Net cash used in investing activities for 2014 was KD 130 million compared to KD 811 million in 2013. In 2012, the Group recorded net cash from investing activities of KD 82 million. In each period, the principal investment activities were acquisitions and sales or redemptions of available for sale securities, with significantly more sales and redemptions being effected in 2014 and 2012 compared to those effected in 2013.

Net cash used in financing activities for 2014 was KD 134 million compared to KD 131 million in 2013 and KD 205 million in 2012, principally reflecting the dividend paid by the Group in each year and, in 2012, the purchase of treasury shares.

Funding

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

The Group's customer deposits were KD 11,260 million, or 59.5 per cent. of its total liabilities, as at 31 December 2014, KD 10,478 million, or 65.9 per cent. of its total liabilities, as at 31 December 2013 and KD 9,508 million, or 68.5 per cent. of its total liabilities, as at 31 December 2012. Deposits from the Kuwaiti government and its related agencies have approximated 20 to 25 per cent. of the Group's total funding over the three years to 31 December 2014. See "*Risk factors—Factors that may affect the Bank's ability, in its capacity as Guarantor, to fulfil its obligations under the Capital Securities and/or the Subordinated Guarantee—The Group's customer loan portfolio, deposit base and investment securities portfolio are concentrated in Kuwait and the MENA region*" and "*Risk factors—Factors that may affect the Bank's ability, in its capacity as Guarantor, to fulfil its obligations under the Capital Securities and/or the Subordinated Guarantee—The Group has significant customer and sector concentrations*".

The Group has no outstanding loans and its only outstanding debt at 31 December 2014 and 31 December 2013 was KD 675 million and KD 241 million, respectively, in short-term certificates of deposit issued by the Bank.

The table below shows the Group's funding in the form of customer deposits, bank deposits and certificates of deposit issued as at 31 December in each of 2014, 2013 and 2012.

	As at 31 December					
	2014		2013		2012	
	(KD million)	*(% of total)*	*(KD million)*	*(% of total)*	*(KD million)*	*(% of total)*
Due to banks and other financial institutions	6,706	36.0	4,945	31.6	4,155	30.4
Customer deposits	11,260	60.4	10,478	66.9	9,508	69.6
Certificates of deposit issued	675	3.6	241	1.5	—	—
Total	**18,641**	**100.0**	**15,664**	**100.0**	**13,663**	**100.0**

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

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

The Group believes that its current, demand and savings accounts are diversified and sticky in nature, and constitute a stable and secure source of low cost funding. The Group's current, demand and savings accounts form a significant proportion of its total customer deposits.

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

As at 31 December 2014, the Group's customer deposits accounted for 60.4 per cent. of its total funding.

Maturity profile

The table below shows the maturity profile of the Group's total deposits and certificates of deposit issued as at 31 December 2014, 2013 and 2012. This analysis is based on contractual cash flows and maturity dates.

	Up to 3 months	3 to 12 months	Over 1 year	Total
		(KD million)		
2014				
Due to banks and other financial institutions	4,505	2,013	188	6,706
Customer deposits	9,624	1,481	154	11,260
Certificates of deposit issued	621	54	—	675
Total	**14,751**	**3,548**	**342**	**18,641**
2013				
Due to banks and other financial institutions	3,954	917	73	4,945
Customer deposits	9,039	1,231	208	10,478
Certificates of deposit issued	235	6	—	241
Total	**13,228**	**2,154**	**282**	**15,664**
2012				
Due to banks and other financial institutions	3,330	732	93	4,155
Customer deposits	7,954	1,259	294	9,508
Certificates of deposit issued	—	—	—	—
Total	**11,284**	**1,992**	**387**	**13,663**

A significant proportion of the Group's funding disclosed in the table above as at 31 December 2014 is short term in nature, with 79.1 per cent. of such funding being repayable within three months and a further 19.0 per cent. being repayable within one year. See "*Risk Factors—Factors that may affect the Bank's ability, in its capacity as Guarantor, to fulfil its obligations under the Capital Securities and/or the Subordinated Guarantee—The Group is subject to the risk that liquidity may not always be readily available or may only be available at costs which may adversely affect its business or results of operations*". The issue of the Capital Securities is intended to help the Group diversify its sources of funding and to extend the average maturity of its funding base.

Given the state-run and oil-driven nature of the domestic economy, the Group's deposit base is, at least in the near future, expected to remain concentrated by depositor type, namely cash-rich Kuwaiti government and government-related entities. Significant time deposits from large customers are, with the customers' agreement, divided into smaller deposits with varying maturities, thereby partly mitigating the risks associated with single party deposit concentration.

Equity funding

For a discussion of the Group's share capital and reserves at 31 December 2014, 2013 and 2012, see note 17 to each of the 2014 Financial Statements and the 2013 Financial Statements.

LENDING

The Group's total customer loan portfolio (which comprises its loans, advances and Islamic financing provided to customers (net of provisions)) was KD 11,909 million as at 31 December 2014.

The table below shows the Group's customer loan portfolio, provisions and loan to deposit ratios as at 31 December in each of 2014 and 2013.

	As at 31 December	
	2014	**2013**
	(KD million)	
Gross loans[1]	12,423	11,131
Less: provisions	(515)	(435)
Net loans[3]	11,909	10,695
Net loans/customer deposits	105.8%	102.1%
Net loans/total deposits[2]	63.9%	68.3%

Notes:

(1) Gross loans comprises total loans, advances and Islamic financing provided to customers disregarding impairment.

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

(3) Net loans comprise gross loans less impairment charges.

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

The majority of the loans within the Group's customer loan portfolio in Kuwait contain terms permitting it to adjust the interest rate payable by the customer upon any change in the CBK discount rate or the relevant interbank benchmark. The Group believes that there is only limited structural exposure to interest rate movements as the majority of its assets and liabilities re-price within one year. However, the Group's experience is that, whilst its assets generally re-price immediately upon a change in the CBK discount rate, there is a time lag on deposit re-pricing which means that its net interest margin improves in an increasing interest rate environment.

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

Distribution of customer loans by maturity

The table below shows the distribution of the Group's customer loan portfolio by maturity (based on contractual cash flows and maturity dates) as at 31 December in each of 2014 and 2013.

	Up to 3 months	3 – 12 months	Over 1 year	Total
		(KD million)		
31 December 2014	3,824	1,657	6,428	**11,909**
31 December 2013	3,863	1,467	5,366	**10,695**

Distribution of customer loans by geographical region and customer segment

The table below shows the distribution of the Group's customer loan portfolio by geographical region as at 31 December in each of 2014 and 2013.

	MENA region	North America	Europe	Asia	Other	Total
			(KD million)			
31 December 2014	10,963	187	306	181	272	**11,909**
31 December 2013	9,942	153	285	133	182	**10,695**

The table below shows the distribution of the Group's customer loan portfolio by customer segment as at 31 December in each of 2014 and 2013.

At 31 December 2014	**Gross exposure**	**Specific provision**	**Exposure net of provision**
		(KD million)	
Corporate	8,633	(69)	**8,564**
Retail	3,790	(70)	**3,720**
Customer loan portfolio	12,423	(139)	**12,285**
Less general provision			**(376)**
			11,909

At 31 December 2013	**Gross exposure**	**Specific provision**	**Exposure net of provision**
		(KD million)	
Corporate	7,686	(83)	**7,603**
Retail	3,445	(63)	**3,383**
Customer loan portfolio	11,131	(146)	**10,985**
Less general provision			**(290)**
			10,695

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

The Group does not disclose the sectoral split of its customer loan portfolio in the Financial Statements, although it does disclose the sectoral split of its maximum exposure to credit risk, which comprises its customer loan portfolio plus its debt investments, cash balances, deposits with banks and certain other assets. The table below shows the breakdown by industry sector of the Group's maximum exposure to credit risk as at 31 December in each of 2014 and 2013.

	As at 31 December	
	2014	**2013**
	(KD million)	
Trading	2,198	1,910
Manufacturing	1,231	1,201
Banks and other financial institutions	7,967	5,893
Construction	1,211	1,094
Real estate	2,448	2,114
Retail	3,676	3,342
Government	1,818	1,556
Others	3,022	2,765
Total	**23,571**	**19,875**

The Group seeks to limit its credit risk through diversification of its assets by geography and industry sector. As at 31 December 2014, the Group's exposure to banks and other financial institutions, before taking into account any collateral held or credit enhancements, accounted for 33.8 per cent. of its total exposure compared to 29.6 per cent. at 31 December 2013. Approximately 35 per cent. of the Group's 33.8 per cent. exposure to banks and other financial institutions as at 31 December 2014 was in the form of short-dated inter-bank placements and approximately 12 per cent. was in the form of trade finance exposures.

The Group's second major sector of credit exposure is the consumer banking segment, which accounted for 15.6 per cent. of the Group's total credit exposure at 31 December 2014, and represented loans made to a diverse base of individual borrowers and a small number of small and medium sized enterprises (**SMEs**).

These exposures mainly comprise a range of products and services to individuals, including consumer loans, credit cards, deposits, foreign exchange credit facilities to SMEs and other branch-related services.

The real estate sector constituted 10.4 per cent. of the Group's exposure at 31 December 2014. As per CBK regulations, the real estate segment includes not only credit facilities granted to companies engaged in real estate business but also to borrowers where the purpose of the specific facility concerned is to finance real estate development and acquisition. The Group's exposure to this sector is also spread across Kuwait and certain major cities internationally, including in the United States and the United Kingdom. In all cases, the Group has full recourse to all the assets and resources of the borrower concerned, which, with only limited exceptions, includes assets beyond those being financed.

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

See "*Risk management—Credit risk*" for a discussion of the Group's loan origination and monitoring procedures, its loan classification system, collateral policy and an analysis of its non-performing loans and provisioning and write-off policies.

INVESTMENT SECURITIES PORTFOLIO

The Group's investment securities portfolio comprises treasury bills and bonds (with maturities ranging from short-term to in excess of three years) issued by the CBK on behalf of the Kuwaiti ministry of finance, bonds issued by the CBK (with maturities of less than one year) and a portfolio of available for sale debt and equity securities. The Group invests in these securities both to generate returns and to provide an additional source of liquidity when needed.

The table below summarises the Group's investment securities portfolio as at 31 December 2014, 2013 and 2012.

	2014	2013	2012
		(KD million)	
CBK bonds (held to maturity)	535	535	614
Kuwait government treasury bonds (held to maturity)	345	320	356
Non Kuwaiti government debt securities			
Held to maturity	108	73	19
Available for sale	1,165	1,032	747
Non-government debt securities			
Held to maturity	4	4	6
Available for sale	919	920	431
Equities			
Available for sale	112	117	101
Fair value through profit and loss	3	4	34
Other investments			
Available for sale	119	146	158
Fair value through statement of income	64	54	81
Total investment securities	**3,373**	**3,205**	**2,548**

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

The Group's available for sale and fair value through statement of income securities are measured at fair value. For further information on the manner in which the fair value of these securities is determined, see note 20 to the 2014 Financial Statements.

CAPITAL ADEQUACY

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 the Basel Committee on Banking Supervision (the **Basel Committee**) as adopted by the CBK.

In June 2014, the CBK issued directives on the adoption of capital adequacy standards under the Basel III framework applicable to licensed banks in Kuwait, effectively replacing and superseding the earlier Basel II requirements. The Basel III reforms strengthen the quality of capital and introduce several buffer requirements in line with proposals made by the Basel Committee. The CBK Basel III framework consists of three Pillars:

- Pillar 1 provides a framework for measuring capital requirements for credit, operational and market risks under the "Standardised Approach";
- Pillar 2 relates to the supervisory review process and emphasises the importance of the Internal Capital Adequacy Assessment Process (ICAAP) performed by banks; and
- Pillar 3 aims to complement the 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.

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

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

The total capital adequacy ratio required by the CBK is scheduled to increase to 12.5 per cent. from 31 December 2015 and is scheduled to increase to 13.0 per cent. from 31 December 2016. The Group has been notified by the CBK that it will be designated as a domestically systemic important bank (D-SIB) with an additional Common Equity Tier 1 D-SIB surcharge of 2 per cent. required from 31 December 2016. As a result, the Group's total minimum capital requirement from that date is expected to be 15 per cent., which includes a capital conservation buffer.

The table below shows the composition of the Group's regulatory capital and its capital ratios as at 31 December 2014 (determined in accordance with Basel III as implemented in Kuwait) and as at 31 December 2013 and 2012 (determined in accordance with Basel II as implemented in Kuwait).

	As at 31 December		
	2014	2013	2012
		(KD million)	
Risk weighted assets	13,465	11,253	10,299
Capital required	1,616	1,350	1,236
Capital available			
Core equity tier 1 capital	1,783		
Additional tier capital	9		
Tier 1 capital	1,792	1,892	1,821
Tier 2 capital	163	56	62
Total capital	**1,955**	**1,948**	**1,883**
Core equity tier 1 capital ratio	13.2%		
Tier 1 capital adequacy ratio	13.3%	16.8%	17.7%
Total capital adequacy ratio	14.5%	17.3%	18.3%

The Group is also subject to a CBK Basel III leverage ratio requirement of 3 per cent. The Group's leverage ratio was 7.8 per cent. at 31 December 2014.

CAPITAL EXPENDITURE AND OTHER COMMITMENTS

With the exception of its head office building which is under construction, the Group does not have any material ongoing capital expenditure or, save as disclosed under "—*Contingent liabilities*" below, other commitments.

CONTINGENT LIABILITIES

The Group has contingent liabilities in respect of funding commitments it has made as well as in relation to acceptances, letters of credit and guarantees issued by it. The table below shows these contingent liabilities as at 31 December in each of 2014, 2013 and 2012.

	As at 31 December		
	2014	2013	2012
		(KD million)	
Irrevocable commitments to extend credit	645	419	318
Acceptances	116	47	86
Letters of credit	302	299	307
Guarantees	2,457	2,238	2,068
Total	**3,521**	**3,002**	**2,779**

RELATED PARTY TRANSACTIONS

The Group's principal related party transactions are with its directors and executive officers, their close family members and companies controlled by them or their close family members as well as with associates of the Group. IFRS requires the disclosure of shareholder related parties only in cases where those related parties exercise significant influence. In 2014, the Group had no shareholders who owned 5 per cent. or more of the Bank's shares. On this basis, the Group determined that no shareholder had significant influence and therefore no shareholder related party transactions were disclosed. Certain related parties are customers of the Group in the ordinary course of business. Transactions with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve an amount of risk that is higher than the amount of risk taken in comparable transactions with unrelated parties. Lending to directors and their related parties is secured by tangible collateral in accordance with CBK regulations.

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

- all facilities to Board members must be approved, renewed or modified only at the Board level and this authority cannot be delegated to a committee of other body;
- the approval, renewal or modification of Board members' facilities can only be considered approved when at least three-quarters of the Board members have approved the same; and
- the Bank must acquire adequate collateral.

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

Further information on the Group's related party transactions in 2014, 2013 and 2012 is set out in note 24 to each of the 2014 Financial Statements and the 2013 Financial Statements.

OVERVIEW OF KUWAIT

Unless indicated otherwise, information in this section has been derived from Kuwaiti government publications.

Country Profile

Kuwait is a sovereign state on the coast of the Arabian Gulf, enclosed by Saudi Arabia to the south and south west and Iraq to the north and west. Kuwait has proven conventional crude oil reserves of 101,500 million barrels, the fifth largest in the world (according to OPEC's Annual Statistical Bulletin 2014). The total area of Kuwait is 17,818 square kilometres. Kuwait is a constitutional monarchy with a parliamentary system of government and Kuwait City serves as the state's political and economic capital. Kuwait has an open economy that is primarily dependent on its oil industry and which is dominated by the government sector. Based on information from the Public Authority for Civil Information, Kuwait's population was approximately 4.0 million as of June 2014 (of which Kuwaiti nationals accounted for 31.1 per cent.).

Political Overview

Kuwait is a constitutional monarchy. The head of state, the Emir, appoints the prime minister, who leads a collective majority of elected members of parliament (**National Assembly**) to form the government of Kuwait. The prime minister selects a cabinet of a maximum of 16 members and at least one cabinet minister must be drawn from the elected parliament. The membership of the cabinet is subject to the approval of the Emir. The current National Assembly was elected in July 2013.

The current Emir is His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, with the current Crown Prince being His Highness Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and the current prime minister being His Highness Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah.

In terms of foreign relations and membership of international organisations, Kuwait, together with Bahrain, Oman, Qatar, Saudi Arabia and the UAE, form the GCC. Kuwait is also a member of OPEC and the United Nations. It is also a member of numerous international and multilateral organisations, including the IMF, the International Bank for Reconstruction and Development, the World Trade Organisation, the League of Arab States, the Organisation of the Islamic Conference, the Multilateral Investment Guarantee Agency and the United Nations Educational, Scientific and Cultural Organisation (UNESCO).

Economic Overview

According to data from the IMF's World Economic Outlook Database October 2014, Kuwait's real GDP increased by 10.2 per cent. in 2011, increased by 8.3 per cent. in 2012 and decreased by 0.4 per cent. in 2013. The IMF estimates that Kuwait's GDP increased by 1.4 per cent. in 2014. The decrease in real GDP in 2013 was primarily caused by a fall in Kuwait's oil-related GDP. Kuwait has posted a budget surplus for each of the last 15 fiscal years through to 31 March 2014.

The IMF's data indicates that inflation, on an average consumer price-measure, was 4.9 per cent. in 2011, 3.2 per cent. in 2012 and 2.7 per cent. in 2013. The IMF estimates that inflation was 3.0 per cent in 2014.

The oil and oil products sector is the most significant contributor to Kuwait's GDP. Oil and gas exports accounted for 61.7 per cent. of Kuwait's nominal GDP in 2013 and was projected to account for 64.8 per cent. of nominal GDP in 2014 (according to the IMF's December 2014 Article IV Consultation with Kuwait). The sector is also the main contributor to Kuwait's annual revenues. On average, Kuwait produced 2.9 million barrels of crude oil each day in 2013 (OPEC Annual Statistical Bulletin 2014).

The IMF estimates that non-oil GDP grew by 3.5 per cent. in 2014 and estimates that such growth will reach 4.0 per cent. in 2015 and 4.0 to 5.0 per cent. in the medium term, supported by consumption and government investments in infrastructure and the oil sector.

Kuwait is estimated to have held reserves of foreign exchange and gold worth U.S.$.34,350,000,000 as at 31 December 2013 (source: the CIA). In addition, Kuwait's sovereign wealth fund, the Kuwait Investment Authority, which was launched in 1953 and is the oldest sovereign wealth fund in the GCC region, has approximately U.S.$.548 billion of assets under management according to data from the Sovereign Wealth Fund Institute.

In February 2015, the National Assembly approved a new five-year development plan (the **Kuwait Development Plan**) that envisages spending of approximately KD 34 billion to implement over 500 projects. The Kuwait Development Plan is scheduled to start in April 2015 and end in March 2020. The Kuwait Development Plan is the second of a series of plans based on a strategic vision for 2035 that emphasises investment in infrastructure, health and education, and envisages significant co-participation of the private sector through the establishment of public shareholding companies. The primary objectives of the plan are to boost GDP, increase the private sector share of the economy and raise the number of Kuwaitis in the private sector.

BANKING INDUSTRY AND REGULATION IN KUWAIT

Unless otherwise indicated, information in this section has been derived from Law No. 32/1968 as amended and the instructions issued by the CBK to conventional banks operating in Kuwait (**Instructions**).

Central Bank of Kuwait

The CBK was established by Law No. 32/1968 and is managed by a board which is chaired by the Governor of the CBK. The membership of the board, in addition to the Governor, comprises the Deputy Governor, a representative from each of the Ministry of Finance and the Ministry of Commerce and Industry (the **MOCI**) and four additional members, each of whom must be a Kuwaiti national and must be nominated by the Minister of Finance (after obtaining the approval of the Council of Ministers). Each of the four additional board members are drawn from expert practitioners in economics, finance or banking and is appointed by an Amiri Decree for three years. The Governor of the CBK and the Deputy Governor are each appointed by decree for a five-year renewable term. The CBK's objectives are:

- to issue currency on behalf of Kuwait;
- to secure the stability of the Kuwaiti dinar and its free convertibility into other currencies;
- to direct credit policy in order to contribute to Kuwait's social and economic progress and the growth of national income;
- to supervise the banking system in Kuwait;
- to serve as banker to the Kuwaiti government; and
- to render financial advice to the Kuwaiti government.

The CBK, either directly or through other financial institutions, undertakes operations relating to the sale and management of securities issued or guaranteed by the Kuwaiti government, or issued in Kuwaiti dinar by any public organisation or institution. The CBK may purchase, sell, discount and rediscount Kuwaiti government treasury bills and purchase and sell public debt securities issued and offered for sale by the Kuwaiti government.

In its supervisory capacity, the CBK may at any time inspect banks, investment companies and other institutions subject to the CBK's supervision, including branches, companies and banks that operate abroad that are subsidiaries of Kuwaiti banks. The CBK may issue such Instructions to banks as it deems necessary to realise its credit or monetary policy or to ensure the sound progress of the banking business. The CBK is entitled to inspect any accounts, books, records, instruments and any other documents that it deems necessary for performing its supervisory role and may also request any other relevant data and information to be provided by any board member of any CBK-regulated institution. On completion of each inspection, the CBK issues a comprehensive report incorporating its recommendations of actions to be taken to address any issues identified during the inspection.

The CBK Instructions cover a wide range of matters, including the liquidity system, maximum limits for credit concentration, credit facilities classification, interest rate ceilings, the organisation of banks' credit policy, the extension of consumer loans and other instalment loans, the extension of banking services, foreign exchange translation and portfolio management (see "—*Certain Banking Regulations*" below). The CBK may impose penalties on any institution that fails to comply with an Instruction.

The CBK has established the Financial Stability Office (the **FSO**), which aims to contribute to a sound financial system in Kuwait capable of withstanding financial and economic shocks by utilising financial stress testing and macro-economic models to identify key vulnerabilities in CBK-regulated institutions and suggesting appropriate corrective measures. The FSO also assists in maintaining an effective internal supervisory system and promoting sound risk management and governance practices.

Certain Banking Regulations

All banks operating within Kuwait are subject to the supervision of the CBK, which is the primary regulator of banks and financial institutions in Kuwait whilst the CMA exercises supervisory authority over all Kuwaiti entities (including banks and financial institutions) which are listed on the KSE or engage in securities activities as discussed further below. The CBK imposes the following regulations upon banks:

Liquidity Regulations

The CBK requires banks to maintain 18 per cent. of their KD customer deposits in the form of balances with the CBK.

Banks' liquidity is monitored using the Maturity Ladder Approach under which future cash inflows are compared with future cash outflows. The resulting liquidity mismatches are then examined in time bands against approved limits for each band. The relevant Instruction relating to liquidity establishes the elements to be included when calculating assets and liabilities for the purpose of determining liquidity.

Credit Risk Regulations

Loans to deposit ratio

Kuwaiti banks are restricted by the CBK from lending amounts in excess of a prescribed percentage of qualifying deposits. With effect from May 2012, the prescribed percentages are 75 per cent. for deposits with a maturity of less than three months, 90 per cent. for deposits with maturities from three months to one year and 100 per cent. for deposits with a maturity in excess of one year.

Investment limits

The total ratio of the securities portfolio held by a Kuwaiti bank should not exceed 50 per cent. of the bank's capital in its comprehensive concept, as defined under the CBK's Instructions to the local banks in respect of the Capital Adequacy Ratio and the CBK Instruction no. BS/104 in respect of the credit concentration limits. Further, the ratio of the investment in the securities of any one issuer should be the lower of 10 per cent. of the bank's capital in its comprehensive concept or 10 per cent. of the issuer's capital.

Credit facility classifications

The CBK requires banks operating in Kuwait to evaluate and classify their credit facilities into two categories (regular and irregular) on a periodic basis. The relevant Instructions specify the cases when a credit facility must be classified as 'irregular' and include where payment of an instalment is not made, interest is not paid on the maturity date or the debit balance exceeds the drawing limits determined for the customer.

Foreign exchange transactions

Local banks may deal with foreign banks for foreign exchange transactions, may deposit Kuwaiti dinar with foreign banks and may enter into foreign exchange swap and other derivative transactions, including options, futures and forward contracts.

Concentration Risk Regulations

Maximum limit for credit concentration

Subject to certain exceptions or where prior CBK approval has been obtained, the total credit liabilities of any single customer (including its legally or economically associated entities) to a bank may not exceed 15 per cent. of the bank's capital base.

Clustering limit – total limit for large concentrations

The aggregate of large credit concentrations (being concentrations which exceed 10 per cent. of a bank's capital base), including any exceptions approved by the CBK, may not exceed 400 per cent. of a bank's capital base.

Consumer loans

The CBK's instruction on consumer loans provides that any consumer loans granted to a bank's customers cannot be utilised for the purpose of repaying an existing loan with another bank in Kuwait.

Extension of facilities for non-residents

Local banks are permitted to extend credit facilities in KD to non-residents without the need for prior consent from the CBK only in connection with financing contracts awarded by government bodies in Kuwait whose value does not exceed KD 40 million and where the loan does not exceed 70 per cent. of the total value of the contract. In all other cases, CBK consent is required for loans to non-residents.

Capital Adequacy Regulations

On 24 June 2014, the CBK issued its final instructions ("Implementing Capital Adequacy Standards – Basel III – for conventional banks") (the **Basel III Instructions**) to conventional banks in Kuwait.

The Basel III Instructions require that the terms and conditions of Tier 1 or Tier 2 instruments issued by a licensed bank in Kuwait must contain a provision that permits such instruments to either be written- off or converted into common equity, as determined by the CBK, should a "Trigger Event" (defined below) occur.

Pursuant to the Basel III Instructions, a "Trigger Event" will have occurred if any one of the following events occurs:

(i) the issuing bank is instructed by the Financial Regulator to write-off or convert such instruments, on the grounds of non-viability; or

(ii) an immediate injection of capital is required, by way of an emergency intervention, without which the issuing bank would become non-viable.

Notwithstanding the definition of "Trigger Event" set out above, the Conditions only allow for a Write-down (as defined in the Conditions), and not a conversion into ordinary shares, of the Capital Securities to take place following the occurrence of a "Trigger Event".

Interest Rate Cap Regulations

The CBK's instruction on interest rates provides that the maximum limits for interest rates on KD loans to corporates should not exceed:

- 2.5 per cent. over the CBK's discount rate in the case of commercial loans with a maturity of one year or less; and

- 4 per cent. over the CBK's discount rate in the case of commercial loans exceeding one year.

Interest rates for housing and consumer loans denominated in Kuwaiti dinar are currently capped at the CBK discount rate plus 3 per cent. for each block of five years. Such interest rates may be adjusted by no more than plus or minus 2 per cent. for each subsequent block of five years.

Interest rates for loans in currencies other than the Kuwaiti dinar are not regulated by the CBK.

Third Party Portfolio Management and other notable CBK Instructions

Management of third parties' portfolios

Instructions apply to portfolios managed by banks and investment companies for the account of third parties and invested in foreign securities and other financial instruments.

Other notable CBK instructions

The CBK has also issued Instructions containing guidelines relating to, among other matters: (i) post-dated cheques; (ii) banks' credit policy ratios; (iii) the verification of the purpose of credit facilities granted to customers; (iv) collateral to be granted by customers against credit facilities and (v) the provision of facilities for trading in shares listed on the KSE.

Corporate Governance

During June 2012, the CBK issued the "Instructions for the Governance of Kuwaiti Banks" (the **Governance Instructions**) which apply to all banks in Kuwait and were required to be implemented by 1 July 2013. The Governance Instructions provide principles that should be followed and applied by Kuwaiti banks in order to ensure proper governance. These include the independence of the board while conducting its work, the setting of a strategy for the bank, putting in place a clear risk policy, protecting the interests of depositors and conducting its business in a safe manner. The Governance Instructions require each bank to produce a governance manual (which must be approved by the bank's board) and establish a governance committee to ensure the execution of the governance manual.

The Governance Instructions define the role of a bank's board, the executive committee (which is to include the chief executive officer), the risk committee, the internal and external audit committee, and any other committees that have an active role in the business of the bank. The Governance Instructions also require each bank to adopt a disclosure and transparency policy (covering topics including material information that may affect the relevant bank's financial position, changes to its management, board or shareholding structure).

The Board of Directors of the Bank adopts and implements internationally accepted as well as local corporate governance practices, including the Governance Instructions. See "*Management and Employees–Management–Corporate governance*" for further detail.

Application of CBK Regulations to the Bank

The Bank is incorporated as a public shareholding company in Kuwait, is registered as a bank with the CBK and is listed on the KSE. As a Kuwaiti shareholding company, the Bank is licensed by the MOCI and as a bank is primarily supervised by the CBK. The MOCI issued the Bank with a commercial licence, renewable according to Kuwaiti law, to carry on banking activities. The Bank's commercial licence was last renewed on 25 July 2012 for the period until 24 July 2016. The Bank has no reason to believe that its commercial licence will not be renewed by the MOCI.

The CBK acts as lender of last resort to all of the Kuwaiti banks. As a financial institution, the Bank is required to submit various periodic and one-off reports to the CBK in a format prescribed by it. The CBK also conducts inspections of banking and financial institutions (banks, investment companies, money exchange companies and mutual funds) which are subject to its supervision in order to ascertain their financial sustainability and their adherence to their constitutional by-laws. These inspections may be in the form of a specific inspection or a full audit of all activities. The CBK inspects all financial institutions which are subject to its supervision periodically and its most recent inspection of the Bank was conducted during September 2014. The final inspection report was issued by the CBK on 8 February 2015 and contained no material issues.

In addition to the CBK, the CMA also exercises supervisory authority over the Bank as a company listed on the KSE.

Banking System

As at 31 December 2014, the Kuwaiti banking sector comprised 23 banks, including five commercial banks, one specialised bank, five Shari'a-compliant local banks, branches of 11 international conventional banks and a branch of a Saudi Arabian Islamic bank.

The Kuwait banking sector has experienced increased competition and diversification from the entry of international banks establishing branches in Kuwait, following the promulgation of Law No. 28 of 2004 amending certain provisions of Law No. 32 of 1968 concerning Currency, CBK and the Organisation of Banking Business. As at 31 December 2014, total assets in the Kuwaiti banking sector amounted to KD 55.5 billion and total loans to Kuwaiti residents amounted to KD 30.8 billion (source: CBK).

The key performance indicators of the conventional Kuwaiti banks for the year ended 31 December 2014 are set out below (source: annual reports published on the company website of each bank listed below).

	Cost to income ratio	**Return on assets**	**Return on equity**	**Earnings per share**
(KD million)	*(%)*	*(%)*	*(%)*	*(fils)*
National Bank of Kuwait	33%	1.3%	10.1%	56
Burgan Bank	44%	0.8%	10.9%	37.6
Gulf Bank	34%	0.7%	7.1%	13
Commercial Bank of Kuwait	24%	1.2%	8.8%	34.9
Al-Ahli Bank of Kuwait	30%	1.1%	6.8%	23

Financial Stability Law and Deposit Guarantee Law

In response to the global financial crisis which began in 2008, the Kuwaiti Government took a number of measures, including the passing of Decree No. 2 of 2009 (the **Financial Stability Law**). The Financial Stability Law sought to stabilise the financial sector in Kuwait and other economic sectors so as to encourage the financing of such sectors by local banks.

As a further measure, the Kuwaiti Government passed Law No. 30 of 2008 regarding the guarantee of deposits held with local banks (the **Deposit Guarantee Law**). Under the Deposit Guarantee Law, the Kuwaiti Government has undertaken to guarantee the principal (but not interest) of all deposits held with local banks in Kuwait, including saving accounts and current accounts.

The Family Support Fund

In 2013, the Kuwaiti Government enacted Law No. 14 of 2013 (the **Family Support Fund Law**) and its executive regulations. The Family Support Fund Law established a debt relief fund (the **Family Support Fund**) which, subject to certain conditions, was authorised to purchase the remaining outstanding balances under consumer and installment loans granted by conventional banks and investment companies to Kuwaiti citizens prior to 30 March 2008 and which remained active as of 12 June 2013 (the **Loans**). The Family Support Fund Law provides for a waiver by the Family Support Fund of all future interest payable under the Loans together with the rescheduling of payments in the form of equal installments amortised over a period not exceeding fifteen (15) years. Applications by Kuwaiti citizens wanting to take advantage of the debt relief under the Family Support Fund Law were required to be submitted within four (4) months from the date of effect of the Family Support Fund Law.

TAXATION

The following is a general description of certain Kuwait, UAE and DIFC, EU and United States tax considerations relating to the Capital Securities. It does not purport to be a complete analysis of all tax considerations relating to the Capital Securities. Prospective purchasers of Capital Securities should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Capital Securities and receiving payments under the Capital Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Kuwait

This summary of taxation in Kuwait is based on the Kuwait Income Tax Decree No. 3 of 1955 (the Decree), as amended by Law No. 2 of 2008 "Amending Certain Provisions of Kuwait Income Tax Decree No. 3 of 1955" (the Amendment), the Executive Bylaws of the Amendment (the Regulations), and various ministerial resolutions and circulars relating thereto issued by the Ministry of Finance (the MOF) (together, the Taxation Laws) as interpreted and implemented by the MOF's Department of Income Tax (DIT) as at the date of this Prospectus. Any subsequent changes in either the Taxation Laws or the interpretation or implementation of the same by the DIT would alter and affect this summary.

Income tax

Under the Taxation Laws, income tax (at a flat rate of 15 per cent.) is levied on, *inter alia*, the net income and capital gains realised by any corporate entity (interpreted by the DIT to mean any form of company or partnership), wherever incorporated, that conducts business in Kuwait. However, the DIT to date has granted a concession to such corporate entities incorporated in Kuwait or in any other GCC country (being referred to in this Prospectus as GCC corporate entities) and has only imposed income tax on corporate entities which are not GCC corporate entities (being referred to in this Prospectus as non-GCC corporate entities) which, for the avoidance of doubt, includes shareholders of GCC corporate entities which are themselves non-GCC corporate entities, in each case, conducting business in Kuwait. The following paragraphs in this section are therefore applicable only to non-GCC corporate entities.

Pursuant to the Regulations, income generated from the lending of funds inside Kuwait is considered to be income realised from the conducting of business in Kuwait, and is therefore subject to income tax.

As the Regulations have been implemented relatively recently, there has been no official statement made publicly by the DIT regarding its interpretation of, and/or application of, the requirement described in the previous paragraph in the context of a transaction such as the issue of the Capital Securities, in particular where the issuer thereof is not incorporated in Kuwait. Similarly, the Kuwaiti courts (who will be the final arbiters on the matter) have not been required to interpret such requirement to date.

The DIT has not enforced the imposition of income tax referred to above (or the retention of payments referred to under "*Retention*" below) on non-GCC corporate entity "lenders" in the context of transactions to date which are similar to the issue of the Capital Securities (such as other international bond issues which are made through offshore special purpose vehicles and/or loans extended to Kuwaiti borrowers by non-GCC corporate entity bank lenders).

Notwithstanding the foregoing, the application and enforcement of the Kuwaiti income tax regime remains uncertain, especially as a result of the lack of DIT and/or Kuwaiti court precedent referred to above and as a result of the fact that the DIT has to date not always adopted consistent rulings on Kuwaiti tax matters more generally. Accordingly, prospective investors in the Capital Securities are advised that there remains a possibility that any holder of Capital Securities which is a non-GCC corporate entity may become subject to the Kuwaiti income tax regime in the future (which would include an obligation to file an income tax return in Kuwait), should the DIT and/or the Kuwaiti courts determine that the income received by it in respect of any Capital Securities held by it (whether payments are received directly from the Issuer or are received from the Guarantor under the Subordinated Guarantee, should there be a call on the Subordinated Guarantee) represents the "lending of funds inside Kuwait" (and hence constitutes the conducting of business in Kuwait for the purposes of the income tax regime described above), even if the holder of Capital Securities is not incorporated or otherwise located in Kuwait.

Given the lack of precedent of the DIT enforcing the imposition of income tax on non-GCC corporate entity lenders in the circumstances described above, it is not possible to state definitively how the DIT and/or the Kuwaiti courts may implement or enforce the Taxation Laws in practice.

Individuals are not subject to any Kuwaiti income tax on their income or capital gains.

Retention

Under the Regulations, a Kuwaiti-based party making a payment (being referred to in this section as the payer) to any other party (being referred to in this section as the payee), wherever incorporated, is obliged to deduct five per cent. of the amount of each such payment until such time as the DIT issues a tax clearance certificate approving the release of such amount. The payer is not required to transfer the deducted amount to the DIT immediately, but instead retains such amount and releases it either (i) to the payee upon presentation to the payer by such payee of a tax clearance certificate from the DIT confirming that the payee is not subject to or is exempt from income tax, or has realised a loss, or has paid or guaranteed the payment of its income tax; or (ii) in the absence of such a tax clearance certificate, to the DIT, on demand.

According to a literal interpretation of the Regulations, payments which are subject to a deduction as described above would include principal and interest payments. Accordingly, the Guarantor would be required to deduct five per cent. from every payment made by it to the Issuer (under the terms of the On-Loan Agreement) and the holders of the Capital Securities (if there is a call on the Subordinated Guarantee), which amount would be released by the Guarantor upon presentation to it by the Issuer or the relevant holder of Capital Securities of a tax clearance certificate from the DIT.

However, the Issuer and the holders of Capital Securities shall be able to rely on the provisions in the Conditions, the On-Loan Agreement and the Subordinated Guarantee, which require the Guarantor to gross up each payment by an amount equal to any deduction, irrespective of whether a tax clearance certificate is presented or not.

Other taxes

Save as described above, all payments in respect of the Capital Securities and the Subordinated Guarantee may be made without withholding, deduction or retention for, or on account of, present taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of Kuwait.

No stamp, registration or similar duties or taxes will be payable in Kuwait by holders of Capital Securities in connection with the issue or any transfer of the Capital Securities.

United Arab Emirates (excluding the Dubai International Financial Centre)

Under current legislation, there is no requirement for withholding or deduction for or on account of UAE or Dubai taxation in respect of payments made by the Guarantor under the Documents to which it is a party and/or the Issuer under the Capital Securities.

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

If any such withholding or deduction is required to be made in respect of payments due by (i) the Guarantor under the Documents to which it is a party; or (ii) the Issuer under the Capital Securities, the Guarantor has undertaken in the Documents to make gross-up payments to compensate for any such withholding.

Dubai International Financial Centre

Pursuant to Article 14 of Law No. (9) of 2004 in respect of the Dubai International Financial Centre (the **DIFC Law**), entities licensed, registered or otherwise authorised to carry on financial services in the Dubai International Financial Centre and their employees shall be subject to a zero rate of tax for a period of 50 years from 13 September 2004. This zero rate of tax applies to income, corporation and capital gains tax. In addition, this zero rate of tax will also extend to repatriation of capital and to transfers of assets or profits or salaries to any party outside the Dubai International Financial Centre. Article 14 of the DIFC Law also provides that it is possible to renew the 50-year period to a similar period upon issuance of a resolution by the Ruler of the Emirate of Dubai. As a result no payments by the Issuer under the Capital Securities are subject to any Dubai International Financial Centre tax, whether by withholding or otherwise.

If any such withholding or deduction is required to be made in respect of payments due by (i) the Guarantor under the Documents to which it is a party; or (ii) the Issuer under the Capital Securities, the Guarantor has undertaken in the Documents to make gross-up payments to compensate for any such withholding.

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. They will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The ending of this transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The Proposed Financial Transactions Tax (*FTT*)

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Capital Securities (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Capital Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Capital Securities are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a **foreign financial institution**, or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a **Recalcitrant Holder**). The Issuer may be classified as an FFI and the Guarantor is classified as an FFI.

The new withholding regime is now in effect for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements (each, an **IGA**) to facilitate the implementation of FATCA. Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would generally not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being a **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States has reached agreement in substance on the terms of IGAs with both the United Arab Emirates (the **UAE**) and Kuwait based largely on the Model 1 IGA. Until the United States signs an IGA with the UAE and Kuwait (the **U.S.-UAE IGA** and **U.S.-Kuwait IGA**, respectively), the UAE and Kuwait will be treated as having Model 1 IGAs in effect provided that the UAE and Kuwait remain on the IRS list of jurisdictions that have reached an agreement in substance on the terms of an IGA. The U.S. Treasury will review this list on a monthly basis to determine whether each jurisdiction will continue to be treated as having an IGA in effect.

If the Issuer and Guarantor are treated as Reporting FIs pursuant to the U.S.-UAE IGA and U.S. Kuwait IGA, respectively, they do not anticipate that they will be obliged to deduct any FATCA Withholding on payments they make. There can be no assurance, however, that the Issuer or Guarantor will be treated as Reporting FIs, or that they would in the future not be required to deduct FATCA Withholding from payments they make. The Issuer, the Guarantor and financial institutions through which payments on the Capital Securities are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Capital Securities is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

Whilst the Capital Securities are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Capital Securities by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA with the United States will be unlikely to affect the Capital Securities. The documentation expressly contemplates the possibility that the Capital Securities may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, definitive securities will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Capital Securities.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the **Subscription Agreement**) dated 7 April 2015 between the Issuer, the Guarantor and the Managers, the Issuer has agreed to issue U.S.$700,000,000 in aggregate principal amount of the Capital Securities and, subject to certain conditions, the Managers have jointly and severally agreed to subscribe or procure subscribers for the Capital Securities at the issue price of 100 per cent. of the principal amount of Capital Securities less certain commissions as described below.

The Managers will be paid certain commissions in respect of their services for managing the issue and the offering of the Capital Securities. To the extent permitted by law, the Issuer, the Guarantor and the Managers may agree that commissions or fees may be paid to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Capital Securities purchased by such intermediary and/or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the relevant intermediary and none of the Issuer, the Guarantor, the Managers or any of their affiliates, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations. Each customer of any such intermediary is responsible for determining for itself whether an investment in the Capital Securities is consistent with its investment objectives.

The Managers will also be reimbursed for certain of their expenses in connection with the issue of Capital Securities and each of the Issuer and the Guarantor has agreed to indemnify the Managers against certain liabilities incurred by them in connection therewith.

United States

The Capital Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except to certain persons in offshore transactions in reliance on Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this section have the meanings given to them by Regulation S.

Each Manager has represented and agreed that it has not offered, sold or delivered any Capital Securities, and will not offer, sell or deliver any Capital Securities: (a) as part of their distribution at any time; or (b) otherwise until 40 days after the completion of the distribution of all Capital Securities as determined and certified as provided below, except in accordance with Rule 903 of Regulation S under the Securities Act. Each Manager who purchases Capital Securities shall determine and certify to the Fiscal Agent the completion of the distribution of the Capital Securities. On the basis of such notification or notifications, the Fiscal Agent has agreed to notify such Manager of the end of the distribution compliance period with respect to the Capital Securities.

Each Manager has also agreed that, at or prior to confirmation of sale of Capital Securities, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Capital Securities from it during the 40 day distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Manager, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Each Manager has represented and agreed that it, its affiliates nor any persons acting on its or their behalf has engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to any Capital Securities, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

Until the expiration of 40 days after the commencement of the offering of the Capital Securities, an offer or sale of the Capital Securities within the United States by any dealer/manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Capital Securities in, from or otherwise involving the United Kingdom.

Hong Kong

Each Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities other than: (i) to persons whose business is to buy or sell shares on debentures (whether as principal or agent); (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**) and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to any Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Japan

The Capital Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the **FIEA**) and each Manager has represented and agreed that it will not offer or sell any Capital Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Capital Securities will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Capital Securities may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Capital Securities be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Capital Securities are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the Securities and Futures Act) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Capital Securities pursuant to an offer under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the Securities and Futures Act or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act or Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations.

The United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that the Capital Securities have not been and will not be publicly offered, sold or promoted or advertised by it in the United Arab Emirates (the **UAE**) other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Capital Securities to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules 2012 (MKT) module of the Dubai Financial Services Authority (the **DFSA**); and

(b) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

State of Kuwait

Each Manager has represented and agreed that the Capital Securities have not been and will not be offered, sold, promoted or advertised by it in Kuwait other than (a) in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and the CMA Legislation governing the issue, offering and sale of securities; and (b) through persons or corporate entities authorised and licensed by the CMA to carry out such activities.

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Capital Securities. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires any Capital Securities pursuant to an offering should note that the offer of Capital Securities is an offer to "Sophisticated Investors" (as defined in Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1 - 28-2008 dated 18 August 2008 (the **KSA Regulations**)) for the purposes of Article 9 of the KSA Regulations. Each Manager has represented and agreed that the offer of the Capital Securities will only be directed at Sophisticated Investors.

The offer of Capital Securities shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Capital Securities as a Sophisticated Investor may not offer or sell those Capital Securities to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Capital Securities are offered or sold to a "Sophisticated Investor"; (b) the price to be paid for the Capital Securities in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

This Prospectus does not constitute an offer to: (i) the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of Bahrain)) in Bahrain; or (ii) any person in Bahrain who is not an accredited investor.

For this purpose, an **accredited investor** means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(c) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Capital Securities in the State of Qatar, including the Qatar Financial Centre, except: (a) in compliance with all applicable laws and regulations of the State of Qatar, including the Qatar Financial Centre; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Capital Securities or possesses or distributes this Prospectus and neither the Issuer, the Guarantor nor any of the Managers shall have any responsibility therefor.

Neither the Issuer, the Guarantor nor any of the Managers represents that Capital Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or the Capital Securities may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities.

In connection with the offering of the Capital Securities, each Manager and/or its affiliate(s) may act as an investor for its own account and may take up Certificates in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Capital Securities being offered should be read as including any offering of the Capital Securities to the Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

GENERAL INFORMATION

Authorisation

The giving of the guarantee under the Subordinated Guarantee by the Bank and its entry into the Agency Agreement, the Subordinated Guarantee, the On-Loan Agreement and the Subscription Agreement was duly authorised by the Board of the Bank on 7 March 2015.

The issue of Capital Securities by the Issuer and its entry into the Agency Agreement, the On-Loan Agreement and the Subscription Agreement was duly authorised by resolutions of the Board of Directors of the Issuer on 23 March 2015 and by resolutions of the sole shareholder or the Issuer on 23 March 2015. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Capital Securities and the execution and performance of the Agency Agreement, the On-Loan Agreement and the Subscription Agreement.

Approval of the Prospectus, Admission to Trading and Listing of Capital Securities

Application has been made to the Irish Stock Exchange plc for the Capital Securities to be admitted to the Official List and to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of MiFID. It is expected that the listing of the Capital Securities on the Official List and admission of the Capital Securities to trading on the Main Securities Market will be granted on or around 9 April 2015. The total expenses related to the admission to trading are estimated at €4,940.

Arthur Cox Listing Services Limited is acting solely in its capacity as Irish listing agent for the Issuer in relation to the Capital Securities and is not itself seeking admission of the Capital Securities to the Official List or to trading on the Main Securities Market.

Documents Available

For the life of this Prospectus, and following the date of this Prospectus, physical copies of the following documents will, when published, be available for inspection from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London:

(a) the Memorandum and Articles of Association (with an English translation thereof if applicable) of each of the Issuer and the Bank;

(b) the consolidated financial statements of the Group in respect of the financial years ended 31 December 2014 and 31 December 2013, in each case together with the audit reports prepared in connection therewith;

(c) the Subordinated Guarantee, the Agency Agreement (which contains the forms of the Global Certificate and the Certificate) and the On-Loan Agreement; and

(d) a copy of this Prospectus.

Clearing Systems

The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records) under common code 120697234 and ISIN XS1206972348.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1 210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, *société anonyme*, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Significant or Material Change

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the prospects of the Issuer, in each case, since the date of its incorporation.

There has been no significant change in the financial or trading position of the Bank or the Group, and no material adverse change in the prospects of the Bank or the Group, in each case, since 31 December 2014.

Litigation

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Neither the Bank nor any member of the Group has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) during the 12 months preceding the date of this Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Bank or the Group.

Yield

The yield of the Capital Securities is 5.750 per cent. on an annual basis. The yield is calculated as at the Issue Date of the Capital Securities on the basis of the issue price. It is not an indication of future yield.

Auditors

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by the laws of the Dubai International Financial Centre, and does not intend, to publish audited financial statements or appoint any auditors.

The Bank's appointed auditors are Ernst & Young Kuwait whose business address is P.O. Box 74, Safat 13001, Kuwait, Baitak Tower, 18-21st Floor, Safat Square, Ahmed Al-Jaber Street and Deloitte Kuwait whose business address is Ahmed Al-Jaber Street, Sharq, Dar Al-Awadi Complex, Floors 7 & 9, P.O. Box 20174, Safat 13062, Kuwait. Each of Ernst & Young Kuwait and Deloitte Kuwait are regulated in Kuwait by the Kuwait Ministry of Commerce and Industry and the CMA and each of whom is a registered auditor licensed to act as an auditor in Kuwait by the Kuwait Association of Accountants and Auditors.

The consolidated financial statements of the Group as at and for the years ended 31 December 2014 and 31 December 2013 have been jointly audited by Ernst & Young Kuwait with license no. 68 A and Deloitte Kuwait with license no. 62 A in accordance with International Standards on Auditing as stated in their reports included herein.

Websites

The contents of any website referred to in this Prospectus do not form part of this Prospectus.

Managers Transacting with the Bank

In the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Capital Securities. Any such short positions could adversely affect future trading prices of

Capital Securities. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

FINANCIAL INFORMATION

NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

Consolidated Financial Statements

EY
Building a better working world

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

Report on the Consolidated Financial Statements

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 2014, 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.

EY Building a better working world

Deloitte.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, 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 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, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 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 2014 that might have had a material effect on the business of the Bank or on its financial position.

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

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

8 January 2015
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Notes	***2014 KD 000's***	*2013 KD 000's*
Interest income	4	**513,518**	489,328
Interest expense	5	**114,046**	101,614
Net interest income		**399,472**	387,714
Murabaha and other Islamic financing income		**87,061**	73,836
Distribution to depositors and Murabaha costs		**17,195**	10,076
Net income from Islamic financing		**69,866**	63,760
Net interest income and net income from Islamic financing		**469,338**	451,474
Net fees and commissions	6	**121,846**	110,975
Net investment income	7	**33,132**	18,724
Net gains from dealing in foreign currencies		**27,213**	26,232
Share of results of associates		**7,657**	16,287
Other operating income		**1,860**	2,558
Non-interest income		**191,708**	174,776
Net operating income		**661,046**	626,250
Staff expenses		**122,402**	114,940
Other administrative expenses		**72,412**	71,780
Depreciation of premises and equipment		**15,215**	14,539
Amortisation of intangible assets	14	**5,062**	5,837
Operating expenses		**215,091**	207,096
Operating profit before provision for credit losses and impairment losses		**445,955**	419,154
Provision charge for credit losses	11	**135,540**	143,563
Impairment losses	12	**11,155**	5,183
Operating profit before taxation		**299,260**	270,408
Taxation	8	**25,606**	18,886
Profit for the year		**273,654**	251,522
Attributable to:			
Shareholders of the Bank		**261,810**	238,137
Non-controlling interests		**11,844**	13,385
		273,654	251,522
Basic and diluted earnings per share attributable to shareholders of the Bank	9	**56 fils**	51 fils

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	***2014*** ***KD 000's***	*2013* *KD 000's*
Profit for the year		**273,654**	251,522
Other comprehensive income:			
Other comprehensive income reclassified to consolidated statement of income:			
Net gains on investments available for sale	7	**(26,547)**	(13,747)
Impairment losses on investments available for sale	12	**11,155**	5,183
Other comprehensive income to be reclassified to consolidated statement of income in subsequent years:			
Change in fair value of investments available for sale		**25,034**	13,996
Share of other comprehensive income of associates		**322**	2,404
Exchange differences on translation of foreign operations		**8,922**	(37,897)
Other comprehensive income (loss) for the year included in equity		**18,886**	(30,061)
Total comprehensive income for the year		**292,540**	221,461
Attributable to:			
Shareholders of the Bank		**279,135**	212,151
Non-controlling interests		**13,405**	9,310
		292,540	221,461

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	**2014 KD 000's**	2013 KD 000's
Assets			
Cash and short term funds	10	**3,131,991**	2,412,059
Central Bank of Kuwait bonds	12	**534,688**	534,459
Kuwait Government treasury bonds	12	**344,529**	320,248
Deposits with banks		**2,050,515**	899,672
Loans, advances and Islamic financing to customers	11	**11,908,708**	10,695,317
Investment securities	12	**2,493,693**	2,350,175
Investment in associates	13	**119,398**	259,801
Land, premises and equipment		**203,414**	192,199
Goodwill and other intangible assets	14	**696,416**	700,085
Other assets	15	**162,371**	236,130
Investment in an associate held for sale	13	**138,408**	-
Total assets		**21,784,131**	18,600,145
Liabilities			
Due to banks and other financial institutions		**6,705,717**	4,944,865
Customer deposits		**11,259,736**	10,478,048
Certificates of deposit issued		**675,065**	240,984
Other liabilities	16	**273,073**	224,454
Total liabilities		**18,913,591**	15,888,351
Equity			
Share capital	17	**479,973**	457,117
Proposed bonus shares	18	**23,999**	22,856
Statutory reserve	17	**239,987**	228,559
Share premium account	17	**699,840**	699,840
Treasury shares	17	**(78,795)**	(80,302)
Treasury share reserve	17	**14,878**	16,224
Other reserves	17	**1,273,389**	1,164,550
Equity attributable to shareholders of the Bank		**2,653,271**	2,508,844
Non-controlling interests		**217,269**	202,950
Total equity		**2,870,540**	2,711,794
Total liabilities and equity		**21,784,131**	18,600,145

Nasser Musaed Abdullah Al-Sayer
Chairman

Isam J. Al Sager
Group Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	***2014 KD 000's***	*2013 KD 000's*
Operating activities			
Profit for the year		**273,654**	251,522
Adjustments for:			
Net investment income	7	**(33,132)**	(18,724)
Share of results of associates		**(7,657)**	(16,287)
Depreciation of premises and equipment		**15,215**	14,539
Amortisation of intangible assets	14	**5,062**	5,837
Provision charge for credit losses	11	**135,540**	143,563
Impairment losses	12	**11,155**	5,183
Share based payment reserve	19	**1,480**	1,424
Taxation	8	**25,606**	18,886
Operating profit before changes in operating assets and liabilities		**426,923**	405,943
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**(229)**	79,693
Kuwait Government treasury bonds		**(24,281)**	35,963
Deposits with banks		**(1,150,843)**	303,746
Loans, advances and Islamic financing to customers		**(1,347,672)**	(978,656)
Other assets		**73,759**	(93,567)
Due to banks and other financial institutions		**1,760,852**	789,882
Customer deposits		**781,688**	970,294
Certificates of deposit issued		**434,081**	240,984
Other liabilities		**44,130**	43,647
Tax paid		**(22,513)**	(16,591)
Net cash from operating activities		**975,895**	1,781,338
Investing activities			
Purchase of investment securities		**(1,466,122)**	(1,547,486)
Proceeds from sale/redemption of investment securities		**1,350,475**	759,928
Dividend income	7	**3,839**	3,089
Acquisition of non-controlling interests		**(3,752)**	-
Additional investment in associates		**-**	(21,914)
Dividend from associates		**11,554**	10,601
Proceeds from sale of land, premises and equipment		**414**	590
Purchase of land, premises and equipment		**(26,844)**	(15,843)
Net cash used in investing activities		**(130,436)**	(811,035)
Financing activities			
Dividends paid		**(134,610)**	(128,248)
Proceeds from sale of treasury shares		**161**	197
Purchase of treasury shares		**-**	(3,061)
Net cash used in financing activities		**(134,449)**	(131,112)
Increase in cash and short term funds		**711,010**	839,191
Exchange differences on translation of foreign operations		**8,922**	(37,897)
Cash and short term funds at the beginning of the year		**2,412,059**	1,610,765
Cash and short term funds at the end of the year	10	**3,131,991**	2,412,059

The attached notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

KD 000's

	Equity attributable to shareholders of the Bank									
	Share Capital	***Proposed bonus shares***	***Statutory reserve***	***Share premium account***	***Treasury shares***	***Treasury share reserve***	***Other reserves*** *(Note 17e)*	***Total***	***Non - controlling interests***	***Total equity***
At 1 January 2013	435,349	21,768	217,675	699,840	(79,171)	17,957	1,113,097	2,426,515	189,480	2,615,995
Profit for the year	-	-	-	-	-	-	238,137	238,137	13,385	251,522
Other comprehensive loss	-	-	-	-	-	-	(25,986)	(25,986)	(4,075)	(30,061)
Total comprehensive income	-	-	-	-	-	-	212,151	212,151	9,310	221,461
Transfer to statutory reserve (Note 17b)	-	-	10,884	-	-	-	(10,884)	-	-	-
Issue of bonus shares (Note 17a)	21,768	(21,768)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(3,061)	-	-	(3,061)	-	(3,061)
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	197	-	197
Dividends paid	-	-	-	-	-	-	(128,248)	(128,248)	-	(128,248)
Proposed bonus shares (Note 18)	-	22,856	-	-	-	-	(22,856)	-	-	-
Share based payment	-	-	-	-	-	-	1,290	1,290	134	1,424
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	469	469
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(160)	(160)
Non-controlling interest in newly consolidated subsidiary	-	-	-	-	-	-	-	-	3,717	3,717
At 31 December 2013	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 17b)	-	-	11,428	-	-	-	(11,428)	**-**	-	**-**
Issue of bonus shares (Note 17a)	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 18)	-	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**

The attached notes 1 to 29 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 2014 were authorised for issue in accordance with a resolution of the directors on 8 January 2015. 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. The following amendments to IFRSs effective for the annual periods beginning on or after 1 January 2014 did not have any impact on the accounting policies, financial position or performance of the Group.

Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)
Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32)
Novation of Derivatives and Continuation of Hedge Accounting (Amendment to IAS 39)
Recoverable Amount Disclosure for Non-Financial Assets (Amendment to IAS 36)

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 2017. 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 21 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 equity (foreign currency translation reserve).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currencies (continued)

a. Translation of foreign currency transactions (continued)
Translation gains or losses on non-monetary items carried at fair value are included in equity 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 equity (foreign currency translation reserve) 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.

2.8 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Impairment of financial assets (continued)

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.19 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Financial Investments (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Fair value measurement (continued)
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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Goodwill and intangible assets (continued)

b. Intangible assets

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

2.30 Property acquired on settlement of debt

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

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

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

2.32 Islamic customer deposits

Islamic customer deposits comprise of 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 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.34 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.

2.35 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.

2.36 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.36 Significant accounting judgements and estimates (continued)

Estimation uncertainty and assumptions (continued)

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 19.

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.

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.

3 SEGMENTAL ANALYSIS (continued)

2014

	Consumer and Private Banking KD 000's	***Corporate Banking KD 000's***	***Investment Banking and Asset Management KD 000's***	***Islamic Banking KD 000's***	***Group Centre KD 000's***	***International KD 000's***	***Total KD 000's***
Net interest income	**160,231**	**115,468**	**179**	**-**	**16,694**	**106,900**	**399,472**
Net income from Islamic financing	**-**	**-**	**-**	**69,866**	**-**	**-**	**69,866**
Share of results of associates	**-**	**-**	**-**	**(247)**	**-**	**7,904**	**7,657**
Net operating income	**213,736**	**155,758**	**26,183**	**80,714**	**30,922**	**153,733**	**661,046**
Depreciation and amortisation expenses	**4,343**	**521**	**101**	**2,178**	**9,425**	**3,709**	**20,277**
Profit (loss) for the year	**134,686**	**107,667**	**13,838**	**28,505**	**(85,231)**	**74,189**	**273,654**
Total Assets	**3,568,847**	**4,857,286**	**62,147**	**2,647,930**	**2,511,125**	**8,136,796**	**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**
Investment in associates	**-**	**-**	**-**	**85,728**	**-**	**33,670**	**119,398**

2013

	Consumer and Private Banking KD 000's	*Corporate Banking KD 000's*	*Investment Banking and Asset Management KD 000's*	*Islamic Banking KD 000's*	*Group Centre KD 000's*	*International KD 000's*	*Total KD 000's*
Net interest income	152,541	122,626	203	-	23,632	88,712	387,714
Net income from Islamic financing	-	-	-	63,760	-	-	63,760
Share of results of associates	-	-	-	726	-	15,561	16,287
Net operating income	202,311	164,803	24,306	68,821	25,533	140,476	626,250
Depreciation and amortisation expenses	4,753	512	101	1,699	10,303	3,008	20,376
Profit (loss) for the year	114,603	102,225	13,323	12,720	(61,094)	69,745	251,522
Total Assets	3,390,320	4,503,234	62,505	2,191,986	2,275,486	6,176,614	18,600,145
Total Liabilities	3,547,023	1,947,352	7,881	1,922,499	2,227,508	6,236,088	15,888,351
Investment in associates	-	-	-	85,691	-	174,110	259,801

3 SEGMENTAL ANALYSIS (continued)

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

Net operating income	***2014 KD 000's***	*2013 KD 000's*
Kuwait	**507,313**	485,774
Other Middle East and North Africa	**113,954**	103,622
Europe	**23,786**	20,392
Others	**15,993**	16,462
	661,046	626,250

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

Non-current assets	***2014 KD 000's***	*2013 KD 000's*
Kuwait	**920,417**	935,607
Other Middle East and North Africa	**36,185**	36,497
Europe	**934**	1,284
Others	**349**	297
	957,885	973,685

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

	2014 KD 000's	*2013 KD 000's*
Deposits with banks	**23,192**	14,142
Loans and advances to customers	**390,618**	387,894
Debt investment securities	**90,178**	78,220
Other	**9,530**	9,072
	513,518	489,328

5 INTEREST EXPENSE

	2014 KD 000's	*2013 KD 000's*
Due to banks and other financial institutions	**30,161**	25,688
Customer deposits	**82,839**	75,614
Certificates of deposit issued	**1,046**	312
	114,046	101,614

6 NET FEES AND COMMISSIONS

	2014 KD 000's	2013 KD 000's
Fees and commissions income	**141,493**	127,933
Fees and commissions related expenses	**(19,647)**	(16,958)
Net fees and commissions	**121,846**	110,975

Fees and commissions income includes KD 27,769 thousand (2013: KD 25,478 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

	2014 KD 000's	2013 KD 000's
Net realised gains on available for sale investments	**26,547**	13,747
Net losses from investments carried at fair value through statement of income	**(198)**	(138)
Dividend income	**3,839**	3,089
Net gains from investment properties	**2,944**	2,026
	33,132	18,724

8 TAXATION

	2014 KD 000's	2013 KD 000's
Contribution to Kuwait Foundation for the Advancement of Sciences	**2,372**	2,111
National labour support tax	**6,489**	4,187
Zakat	**1,870**	1,654
Taxation on overseas branches and subsidiaries	**14,875**	10,934
	25,606	18,886

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year 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.

	2014 ***KD 000's***	*2013* *KD 000's*
Profit for the year attributable to shareholders of the Bank	**261,810**	238,137
Weighted average number of shares outstanding during the year (thousands)	**4,711,212**	4,711,344
Basic and diluted earnings per share	**56 Fils**	51 Fils

Earnings per share calculations for 2013 have been adjusted to take account of the bonus shares issued in 2014.

10 CASH AND SHORT TERM FUNDS

	2014 ***KD 000's***	*2013* *KD 000's*
Cash on hand	**220,349**	172,860
Current account with other banks	**1,300,426**	1,170,369
Money at call	**250,400**	191,879
Balances with the Central Bank of Kuwait	**38,767**	170,794
Deposits and Murabaha with banks maturing within seven days	**1,322,049**	706,157
	3,131,991	2,412,059

11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2014	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Corporate	**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

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

2013	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	6,926,475	155,013	285,905	134,109	184,052	7,685,554
Retail	3,442,310	86	2,820	-	-	3,445,216
Loans, advances and Islamic financing to customers	10,368,785	155,099	288,725	134,109	184,052	11,130,770
Provision for credit losses						(435,453)
						10,695,317

Provisions for credit losses on cash facilities are as follows:

	Specific		*General*		*Total*	
	2014 KD 000's	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*
Balance at beginning of the year	**145,371**	190,634	**290,082**	254,728	**435,453**	445,362
Amounts written off net of exchange movement	**(55,254)**	(152,347)	**117**	(1,291)	**(55,137)**	(153,638)
Transfer	**-**	39,546	**-**	(39,546)	**-**	-
Provided during the year	**48,647**	67,538	**85,635**	76,191	**134,282**	143,729
Balance at end of the year	**138,764**	145,371	**375,834**	290,082	**514,598**	435,453

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

	Corporate		*Retail*		*Total*	
	2014 KD 000's	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*
Balance at beginning of the year	**82,846**	140,435	**62,525**	50,199	**145,371**	190,634
Amounts written off net of exchange movements	**(53,850)**	(149,970)	**(1,404)**	(2,377)	**(55,254)**	(152,347)
Transfer	**-**	39,546	**-**	-	**-**	39,546
Provided during the year	**39,716**	52,835	**8,931**	14,703	**48,647**	67,538
Balance at end of the year	**68,712**	82,846	**70,052**	62,525	**138,764**	145,371

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

	Specific		*General*		*Total*	
	2014 KD 000's	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*	***2014 KD 000's***	*2013 KD 000's*
Cash facilities	**48,647**	67,538	**85,635**	76,191	**134,282**	143,729
Non cash facilities	**39**	(854)	**1,219**	688	**1,258**	(166)
Provision charge for credit losses	**48,686**	66,684	**86,854**	76,879	**135,540**	143,563

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

The available provision on non-cash facilities of KD 26,941 thousand (2013: KD 25,682 thousand) is included under other liabilities (Note 16).

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:

	2014 ***KD 000's***	*2013* *KD 000's*
Loans, advances and Islamic financing to customers	**186,412**	217,894
Provisions	**130,917**	135,061

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 2014 amounts to KD 48,052 thousand (2013: KD 87,091 thousand). The collateral consists of cash, securities, bank guarantees and properties.

12 FINANCIAL INVESTMENTS

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

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**

12 FINANCIAL INVESTMENTS (continued)

2013	*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)	72,506	1,031,773	-	1,104,279
Debt securities - Non Government	4,139	920,345	-	924,484
Equities	-	116,945	3,933	120,878
Other investments	-	146,349	54,185	200,534
	76,645	2,215,412	58,118	2,350,175
Central Bank of Kuwait bonds	534,459	-	-	534,459
Kuwait Government treasury bonds	320,248	-	-	320,248
	931,352	2,215,412	58,118	3,204,882

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 3,075 thousand (2013: KD 3,204 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 11,155 thousand (2013: KD 5,183 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

13 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2014 KD 000's	*2013 KD 000's*
International Bank of Qatar Q.S.C.	**-**	137,445
Bank Syariah Muamalat Indonesia T.B.K.	**47,597**	49,750
Bank of London and the Middle East	**37,669**	37,785
Turkish Bank A.S.	**24,962**	26,114
United Capital Bank	**5,022**	4,482
Others	**4,148**	4,225
	119,398	259,801

	Country of incorporation	***Principal business***	***% Effective ownership***	
			2014	*2013*
International Bank of Qatar Q.S.C.	Qatar	Banking	**30.0**	30.0
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**	36.4
United Capital Bank	Sudan	Banking	**21.7**	21.7

13 INVESTMENT IN ASSOCIATES (continued)

During the year, 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 158 million. The investment is accordingly reclassified as an associate held for sale in the consolidated statement of financial position as at 31 December 2014.

Prior to entering into the agreement, the Bank's investment in International Bank of Qatar Q.S.C. was accounted for using the equity method of accounting whereby the Bank's share of the associate's post acquisition profits and losses was recognised in the consolidated statement of income of the year.

Subsequent to the year end, the Bank received the sales consideration. The pre-tax profit from the sale, yet to be recognised in the consolidated statement of income, approximates to KD 28 million, inclusive of other comprehensive income amounting to KD 8.5 million. The sale transaction will be concluded after completion of procedural formalities currently underway.

Summarised financial information of material associates of the Group is as follows:

2014	***Bank Syariah Muamalat Indonesia T.B.K.***
	KD 000's
Assets	**1,418,835**
Liabilities	**1,332,605**
Net assets	**86,230**
Contingent liabilities	**26,071**
Net operating income	**40,791**
Results for the year	**(10,225)**
Other comprehensive income for the year	**117**

2013	*International Bank of Qatar Q.S.C.*	*Bank Syariah Muamalat Indonesia T.B.K.*
	KD 000's	*KD 000's*
Assets	2,222,759	1,241,423
Liabilities	1,877,921	1,140,281
Net assets	344,838	101,142
Contingent liabilities	754,990	28,645
Net operating income	70,478	62,369
Results for the year	42,885	13,667
Other comprehensive income for the year	8,064	262

Carrying amounts of material associates consist of the Group's share of net assets and goodwill identified on acquisition.

Other associates	***2014***	*2013*
	KD 000's	*KD 000's*
Share of results for the year	**1,475**	27
Share of other comprehensive income (loss) for the year	**11**	(15)

During the year, the Group has received dividend amounting to KD 11,166 thousand from International Bank of Qatar Q.S.C. (2013: KD 10,315 thousand) and KD 388 thousand from other associates (2013: KD 286 thousand).

14 GOODWILL AND OTHER INTANGIBLE ASSETS

	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 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 adjustments	**-**	**240**	**240**
At 31 December 2014	**-**	**28,886**	**28,886**
Net book value			
At 31 December 2014	**481,711**	**214,705**	**696,416**

	Goodwill *KD 000's*	*Intangible assets* *KD 000's*	*Total* *KD 000's*
Cost			
At 1 January 2013	494,977	247,581	742,558
Exchange adjustments	(14,548)	(4,341)	(18,889)
At 31 December 2013	480,429	243,240	723,669
Accumulated amortisation			
At 1 January 2013	-	19,625	19,625
Charge for the year	-	5,837	5,837
Exchange adjustments	-	(1,878)	(1,878)
At 31 December 2013	-	23,584	23,584
Net book value			
At 31 December 2013	480,429	219,656	700,085

Net book value of goodwill as at 31 December 2014 includes KD 334,531 thousand (2013: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 144,299 thousand (2013: KD 143,122 thousand) in respect of National Bank of Kuwait - Egypt S.A.E. and KD 2,881 thousand (2013: KD 2,776 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2014 includes banking licences and brand amounting to KD 173,933 thousand (2013: KD 176,844 thousand), customer relationships and core deposits amounting to KD 22,810 thousand (2013: KD 24,853 thousand) and brokerage licences amounting to KD 17,962 thousand (2013: KD 17,959 thousand). Intangible assets with indefinite useful life amounts to KD 176,585 thousand (2013: KD 176,582 thousand). Intangible assets with definite useful life amounting to KD 38,120 thousand (2013: KD 43,074 thousand) are amortised over a period of 5 to 15 years.

14 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Impairment testing for goodwill and intangible assets with indefinite useful life

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

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% and a terminal growth rate of 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% (2013: 15.5%) and a terminal growth rate of 5% (2013: 5%) are used to estimate the recoverable amount of this cash generating unit. A discount rate of 8.5% (2013: 9%) and terminal growth rate of 4.5% (2013: 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, there are no indications that goodwill or intangible assets with indefinite useful life are impaired.

15 OTHER ASSETS

	2014 ***KD 000's***	*2013* *KD 000's*
Interest receivable	**41,824**	36,971
Sundry debtors and prepayments	**44,494**	71,283
Investment properties	**25,638**	30,246
Properties acquired on settlement of debts	**32,417**	51,155
Others	**17,998**	46,475
	162,371	236,130

16 OTHER LIABILITIES

	2014 ***KD 000's***	*2013* *KD 000's*
Interest payable	**37,273**	28,412
Income received in advance	**22,775**	18,610
Taxation	**19,766**	16,674
Provision on non-cash facilities (Note 11)	**26,941**	25,682
Accrued expenses	**37,574**	31,423
Staff payables	**31,317**	27,251
Others	**97,427**	76,402
	273,073	224,454

17 SHARE CAPITAL AND RESERVES

a) Share capital

	2014	*2013*
	KD 000's	*KD 000's*
Authorised, issued and fully paid:		
4,799,731,131 (2013 : 4,571,172,506) shares of KD 0.100 each	**479,973**	457,117

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

	2014	*2013*
Number of shares in issue as at 1 January	**4,571,172,506**	4,353,497,625
Bonus issue	**228,558,625**	217,674,881
Number of shares in issue as at 31 December	**4,799,731,131**	4,571,172,506

b) Statutory reserve

The Board of Directors recommended a transfer of KD 11,428 thousand (2013: KD 10,884 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:

	2014	*2013*
Number of treasury shares	**88,381,436**	85,782,085
Treasury shares as a percentage of total shares in issue	**1.8%**	1.9%
Cost of treasury shares (KD thousand)	**78,795**	80,302
Market value of treasury shares (KD thousand)	**80,427**	76,346
Weighted average market value per treasury share (fils)	**960**	910

Movement in treasury shares was as follows:

	No. of shares	
	2014	*2013*
Balance as at 1 January	**85,782,085**	80,527,958
Purchases	**-**	3,288,465
Bonus issue	**4,208,639**	3,928,267
Sales	**(1,609,288)**	(1,962,605)
Balance as at 31 December	**88,381,436**	85,782,085

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.

17 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 2013	117,058	864,498	(35,522)	26,561	12,313	128,189	1,113,097
Profit for the year	-	238,137	-	-	-	-	238,137
Other comprehensive (loss) income	-	-	(34,244)	8,258	-	-	(25,986)
Total comprehensive income (loss)	-	238,137	(34,244)	8,258	-	-	212,151
Transfer to statutory reserve (Note 17b)	-	(10,884)	-	-	-	-	(10,884)
Dividends paid	-	-	-	-	-	(128,248)	(128,248)
Dividends on treasury shares sold	-	(59)	-	-	-	59	-
Proposed bonus shares (Note 18)	-	(22,856)	-	-	-	-	(22,856)
Proposed cash dividend 30 fils per share (Note 18)	-	(134,562)	-	-	-	134,562	-
Share based payment	-	-	-	-	1,290	-	1,290
At 31 December 2013	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 17b)	-	(11,428)	-	-	-	-	**(11,428)**
Dividends paid	-	-	-	-	-	(134,610)	**(134,610)**
Dividends on treasury shares sold	-	(48)	-	-	-	48	**-**
Proposed bonus shares (Note 18)	-	(23,999)	-	-	-	-	**(23,999)**
Proposed cash dividend 30 fils per share (Note 18)	-	(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**

17 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

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.

18 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2013: 30 fils per share) and bonus shares of 5% (2013: 5%) on outstanding shares as at 31 December 2014. 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.

19 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 (2013: KD 0.780). The significant inputs into the model were a share price of KD 0.890 (2013: KD 0.960) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 27.7% (2013: 33.8%), option life disclosed above and annual risk free interest rate of 2% (2013: 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:

	2014	*2013*
	No. of share options	*No. of share options*
Outstanding at 1 January	**5,073,908**	5,691,190
Granted during the year	**2,611,732**	2,134,004
Exercised during the year	**(1,609,288)**	(1,962,605)
Lapsed during the year	**(800,747)**	(788,681)
Outstanding at 31 December	**5,275,605**	5,073,908

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 1,480 thousand (2013: KD 1,424 thousand) and is included under staff expenses.

20 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:

2014	***Level 1 KD 000's***	***Level 2 KD 000's***	***Level 3 KD 000's***	***Total 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 23)	**-**	**(27,494)**	**-**	**(27,494)**

2013	*Level 1 KD 000's*	*Level 2 KD 000's*	*Level 3 KD 000's*	*Total KD 000's*
Debt securities	1,252,251	654,967	44,900	1,952,118
Equities and other investments	189,571	39,018	89,619	318,208
	1,441,822	693,985	134,519	2,270,326
Derivative financial instruments (Note 23)	-	2,038	-	2,038

20 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	At 1 January 2014 KD 000's	***Change in fair value KD 000's***	***Additions KD 000's***	***Sale/ redemption KD 000's***	***Exchange rate movements KD 000's***	***At 31 December 2014 KD 000's***	***Net gains in the consolidated statement of income 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**

	At 1 January 2013 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2013 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	45,530	-	-	(789)	159	44,900	1,451
Equities and other investments	95,502	3,447	5,767	(15,234)	137	89,619	6,150
	141,032	3,447	5,767	(16,023)	296	134,519	7,601

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 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.

21 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2014	*2013*
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 management	**100.0**	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	**84.3**	81.0
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. (Formerly Al Watany Bank of 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 2014, 38.1% (2013: 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 28.

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

	2014 KD 000's	*2013 KD 000's*
Accumulated balances of non-controlling interest	**201,333**	189,530
Profit attributable to non-controlling interest	**11,057**	12,500

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

Summarised financial information	***2014 KD 000's***	*2013 KD 000's*
Assets	**2,647,930**	2,191,986
Liabilities	**2,346,828**	1,922,499
Net operating income	**78,405**	67,072
Results for the year	**28,505**	12,720
Other comprehensive income (loss) for the year	**3,503**	(3,437)

Summarised cash flow information	***2014 KD 000's***	*2013 KD 000's*
Operating cash flow	**161,852**	36,610
Investing cash flow	**(51,999)**	(518)
Financing cash flow	**(654)**	-

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2014	*2013*
	KD 000's	*KD 000's*
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**116,379**	46,699
Letters of credit	**302,231**	299,048
Guarantees	**2,457,116**	2,237,844
	2,875,726	2,583,591

Irrevocable commitments to extend credit amount to KD 644,854 thousand (31 December 2013: KD 418,723 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.

23 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial instruments that derive their value by referring to interest rates and foreign exchange rates. 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. 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'. 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 similar transactions 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 on maturity.

23 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:

	2014			*2013*		
	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)	**4,643**	**25,881**	**667,768**	6,861	10,953	398,057
Forward foreign exchange	**6,198**	**12,454**	**1,359,531**	8,976	2,846	1,027,343
	10,841	**38,335**	**2,027,299**	15,837	13,799	1,425,400

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2014 is negative KD 21,238 thousand (2013: negative KD 4,092 thousand). Gain on the hedged fixed income financial assets amounted to KD 28,344 thousand (2013: KD 6,250 thousand).

24 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.

24 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		*Number of related parties*			
	2014	*2013*	***2014***	*2013*	***2014 KD 000's***	*2013 KD 000's*
Board Members						
Loans (secured)	**4**	4	**9**	16	**195,562**	197,421
Contingent liabilities	**1**	1	**11**	13	**12,495**	27,975
Credit cards	**6**	7	**5**	10	**62**	60
Deposits	**8**	9	**65**	59	**25,010**	24,128
Collateral against credit facilities	**4**	4	**11**	16	**293,532**	349,213
Interest and fee income					**6,718**	7,009
Interest expense					**73**	83
Purchase of equipment and other expenses					**431**	169
Sale of property acquired on settlement of debts					**18,000**	-
Gain on sale of property acquired on settlement of debts					**969**	-
Executive Officers						
Loans	**3**	5	**1**	2	**185**	1,388
Contingent liabilities	**5**	4	**-**	-	**2**	7
Credit cards	**11**	12	**-**	2	**30**	35
Deposits	**11**	14	**19**	23	**2,056**	1,704
Interest and fee income					**46**	53
Interest expense					**-**	1
Associates						
Placements					**174,151**	78,160
Acceptances					**-**	745

25 KEY MANAGEMENT COMPENSATION

Details of compensation to key management personnel are as follows:

	2014 KD 000's	*2013 KD 000's*
Salaries and other short term benefits	**5,959**	6,455
Post-employment benefits	**462**	251
Share based compensation	**273**	302
	6,694	7,008

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

26 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.

26.1 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 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.

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

26.1. 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:

	2014		*2013*	
	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	**11,908,708**	**7,619,398**	10,695,317	6,797,205
Contingent liabilities	**2,875,726**	**2,714,341**	2,583,591	2,412,151

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.

26.1. 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 2014 is 16% (2013: 18%).

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:

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 22)	**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**

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

26.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

2013 **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	1,785,959	1,046,940	245,438	60,534	-	3,138,871
Central Bank of Kuwait bonds	534,459	-	-	-	-	534,459
Kuwait Government treasury bonds	320,248	-	-	-	-	320,248
Loans, advances and Islamic financing to customers	9,941,635	153,175	285,141	133,007	182,359	10,695,317
Held to maturity investments	65,498	-	-	11,147	-	76,645
Available for sale investments	1,492,899	46,750	130,772	273,387	8,310	1,952,118
Other assets	146,451	1,500	5,527	1,179	72	154,729
	14,287,149	1,248,365	666,878	479,254	190,741	16,872,387
Commitments and contingent liabilities (Note 22)	1,776,570	220,327	436,590	568,272	555	3,002,314
	16,063,719	1,468,692	1,103,468	1,047,526	191,296	19,874,701

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:

	2014 ***KD 000's***	*2013* *KD 000's*
Industry sector		
Trading	**2,197,751**	1,910,412
Manufacturing	**1,231,318**	1,200,670
Banks and other financial institutions	**7,966,606**	5,892,531
Construction	**1,211,222**	1,093,938
Real Estate	**2,448,022**	2,114,007
Retail	**3,676,187**	3,341,919
Government	**1,817,585**	1,556,393
Others	**3,022,412**	2,764,831
	23,571,103	19,874,701

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

26.1. 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*
2014	*KD 000's*	*KD 000's*	*KD 000's*	*KD 000's*
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**
2013				
Balances and short term deposits with banks	2,239,199	-	-	2,239,199
Central Bank of Kuwait bonds	534,459	-	-	534,459
Kuwait Government treasury bonds	320,248	-	-	320,248
Deposits with banks	767,864	131,808	-	899,672
Loans, advances and Islamic financing to customers	9,184,401	1,667,444	278,925	11,130,770
Held to maturity investments	11,147	65,498	-	76,645
Available for sale investments	1,445,052	507,066	-	1,952,118
	14,502,370	2,371,816	278,925	17,153,111

26 RISK MANAGEMENT (continued)

26.1 CREDIT RISK (continued)

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

	Corporate		*Retail*		*Total*	
	Past due and not impaired KD 000's	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*
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**
2013						
Up to 30 days	6,655	-	25,182	-	31,837	-
31 - 60 days	1,505	-	9,120	-	10,625	-
61 - 90 days	16,344	-	2,225	-	18,569	-
91-180 days	-	1,541	-	15,334	-	16,875
More than 180 days	-	139,592	-	61,427	-	201,019
	24,504	141,133	36,527	76,761	61,031	217,894

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 2014 was KD 59,105 thousand (2013: KD 103,145 thousand).

26 RISK MANAGEMENT (continued)

26.2 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.

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**

26 RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK (continued)

2013	*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	3,169,693	142,038	-	3,311,731
Central Bank of Kuwait bonds	358,419	176,040	-	534,459
Kuwait Government treasury bonds	24,766	174,796	120,686	320,248
Loans, advances and Islamic financing to customers	3,863,163	1,466,606	5,365,548	10,695,317
Held to maturity investments	67,976	1,129	7,540	76,645
Available for sale investments	206,658	278,549	1,730,205	2,215,412
Investments carried at fair value through statement of income	58,118	-	-	58,118
Investment in associates	-	-	259,801	259,801
Land, premises and equipment	-	-	192,199	192,199
Goodwill and other intangible assets	-	-	700,085	700,085
Other assets	100,708	54,021	81,401	236,130
	7,849,501	2,293,179	8,457,465	18,600,145
Liabilities and equity				
Due to banks and other financial institutions	3,954,060	917,400	73,405	4,944,865
Customer deposits	9,038,550	1,231,013	208,485	10,478,048
Certificates of deposit issued	235,343	5,641	-	240,984
Other liabilities	171,522	-	52,932	224,454
Share capital and reserves	-	-	2,374,282	2,374,282
Proposed cash dividend	134,562	-	-	134,562
Non-controlling interests	-	-	202,950	202,950
	13,534,037	2,154,054	2,912,054	18,600,145

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 KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total 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**
Forward foreign exchange contracts settled on a gross basis				
Contractual amounts payable	**1,267,114**	**88,945**	**-**	**1,356,059**
Contractual amounts receivable	**1,270,636**	**88,817**	**-**	**1,359,453**

26 RISK MANAGEMENT (continued)

26.2 LIQUIDITY RISK (continued)

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2013				
Financial Liabilities				
Due to banks and other financial institutions	3,956,268	921,453	76,630	4,954,351
Customer deposits	9,058,005	1,254,496	224,108	10,536,609
Certificates of deposit issued	235,460	5,646	-	241,106
	13,249,733	2,181,595	300,738	15,732,066
Contingent liabilities and commitments				
Contingent liabilities	762,777	733,579	1,087,235	2,583,591
Irrevocable commitments	94,508	154,883	169,332	418,723
	857,285	888,462	1,256,567	3,002,314
Forward foreign exchange contracts settled on a gross basis				
Contractual amounts payable	902,146	119,657	1,595	1,023,398
Contractual amounts receivable	897,344	117,160	1,595	1,016,099

26.3 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.

26.3.1 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 reverse cumulative interest rate gap is carefully monitored on a daily basis and adjusted where necessary to reflect 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 of 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:

26 RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.1 INTEREST RATE RISK (continued)

		2014		2013	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Currency	Movement in Basis points				
KWD	+25	**5,904**	**-**	4,380	-
USD	+25	**(720)**	**(1,783)**	(2,305)	(4,908)
EUR	+25	**(205)**	**(13)**	(168)	(16)
GBP	+25	**(66)**	**-**	(81)	-
EGP	+25	**403**	**(614)**	149	(457)

26.3.2 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. 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.

		2014		2013	
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	**393**	**620**	187	1,106
GBP	+5	**(202)**	-	74	-
EUR	+5	**244**	-	216	-
EGP	+5	**205**	**10,517**	182	10,606
QAR	+5	-	-	-	5,520
TRY	+5	-	**1,215**	-	1,290
IDR	+5	-	**2,607**	-	2,615
Other	+5	**182**	**4,784**	(314)	4,094

26.3.3 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.

26 RISK MANAGEMENT (continued)

26.3 MARKET RISK (continued)

26.3.3 EQUITY PRICE RISK (continued)

		2014		2013	
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	**-**	**930**	51	1,090
Doha securities market	+5	**-**	**271**	-	555
Saudi stock exchange	+5	**-**	**546**	-	-

26.4 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.

27 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:

	2014 KD 000's
Risk Weighted Assets	**13,464,676**
Capital required	**1,615,761**
Capital available	
Core Equity Tier 1 capital	**1,782,908**
Additional Tier 1 capital	**8,893**
Tier 1 capital	**1,791,801**
Tier 2 capital	**163,176**
Total capital	**1,954,977**
Core Equity Tier 1 capital adequacy ratio	**13.2%**
Tier 1 capital adequacy ratio	**13.3%**
Total capital adequacy ratio	**14.5%**

27 CAPITAL (continued)

For the year ended 31 December 2013, the Group's regulatory capital and capital adequacy ratios shown below were calculated in accordance with CBK Circular number 2/BS/184/2005 dated 21 December 2005 (based on Basel II framework), as amended; for the reasons indicated above they are not directly comparable with those for the year ended 31st December 2014.

	2013 *KD 000's*
Risk Weighted Assets	11,253,031
Capital required	1,350,364
Capital available	
Tier 1 capital	1,891,918
Tier 2 capital	56,128
Total capital	1,948,046
Tier 1 capital adequacy ratio	16.8%
Total capital adequacy ratio	17.3%

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, disclosed for the first time for the year ended 31 December 2014, is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	2014 ***KD 000's***
Tier 1 capital	**1,791,801**
Total exposures	**23,064,834**
Leverage ratio	**7.8%**

28 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 2014, funds under management were KD 3,198 million (2013: KD 3,067 million).

29 FAMILY SUPPORT FUND

During the previous year, CBK issued its Circular No. 2/RB,RBA,RS/306/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. The Fund has been established to purchase outstanding balance of instalment and consumer loans (the 'loans') from the Bank as on 12 June 2013 for loans granted before 30 March 2008. As at 31 December 2014, the Bank derecognised a portion of the loans purchased by the Fund amounting to KD 191,467 thousand and transferred these loans to a memorandum account (off-balance sheet) as the Bank continues to manage them on behalf of the Fund.

NATIONAL BANK OF KUWAIT GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Consolidated Financial Statements

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Building a better working world

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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 control relevant to the Group'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.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 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 issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular No. 2/BS/184/2005 dated 21 December 2005, as amended, and CBK Circular No. 2/105/3262 dated 1 April 2013, the Companies Law No. 25 of 2012, as amended, 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 issued by the CBK as stipulated in CBK Circular No. 2/BS/184/2005 dated 21 December 2005, as amended, and CBK Circular No. 2/105/3262 dated 1 April 2013, the Companies Law No. 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated 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 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

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

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

14 January 2014
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	***2013 KD 000's***	*2012 KD 000's*
Interest income	4	**489,328**	491,464
Interest expense	5	**101,614**	118,747
Net interest income		**387,714**	372,717
Murabaha and other Islamic financing income		**73,836**	29,757
Distribution to depositors and Murabaha costs		**10,076**	4,650
Net income from Islamic financing		**63,760**	25,107
Net interest income and net income from Islamic financing		**451,474**	397,824
Net fees and commissions	6	**110,975**	103,397
Net investment income	7	**18,724**	109,817
Net gains from dealing in foreign currencies		**26,232**	24,038
Share of results of associates		**16,287**	13,377
Other operating income		**2,558**	1,477
Non-interest income		**174,776**	252,106
Net operating income		**626,250**	649,930
Staff expenses		**114,940**	102,169
Other administrative expenses		**71,780**	63,755
Depreciation of premises and equipment		**14,539**	13,706
Amortisation of intangible assets	14	**5,837**	4,053
Operating expenses		**207,096**	183,683
Operating profit before provision for credit losses and impairment losses		**419,154**	466,247
Provision charge for credit losses	11	**143,563**	124,283
Impairment losses for investment securities	12	**5,183**	14,735
Operating profit before taxation		**270,408**	327,229
Taxation	8	**18,886**	18,632
Profit for the year		**251,522**	308,597
Attributable to:			
Shareholders of the Bank		**238,137**	305,125
Non-controlling interests		**13,385**	3,472
		251,522	308,597
Basic and diluted earnings per share attributable to shareholders of the Bank	9	**53 fils**	68 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Notes	**2013 KD 000's**	2012 KD 000's
Profit for the year		**251,522**	308,597
Other comprehensive income reclassifiable to consolidated statement of income in subsequent periods			
Change in fair value of investments available for sale		**13,996**	16,371
Net gains on investments available for sale transferred to consolidated statement of income	7	**(13,747)**	(27,336)
Impairment losses on investments available for sale transferred to consolidated statement of income	12	**5,183**	14,735
Share of other comprehensive income of associates		**2,404**	966
Exchange differences on translation of foreign operations		**(37,897)**	(3,270)
Other comprehensive (loss) income for the year included in equity		**(30,061)**	1,466
Total comprehensive income for the year		**221,461**	310,063
Attributable to:			
Shareholders of the Bank		**212,151**	305,839
Non-controlling interests		**9,310**	4,224
		221,461	310,063

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

	Notes	2013 KD 000's	(Restated) 2012 KD 000's
Assets			
Cash and short term funds	10	**2,412,059**	1,610,765
Central Bank of Kuwait bonds	12	**534,459**	614,152
Kuwait Government treasury bonds	12	**320,248**	356,211
Deposits with banks		**899,672**	1,203,418
Loans, advances and Islamic financing to customers	11	**10,695,317**	9,860,620
Investment securities	12	**2,350,175**	1,577,149
Investment in associates	13	**259,801**	213,175
Land, premises and equipment		**192,199**	191,485
Goodwill and other intangible assets	14	**700,085**	722,933
Other assets	15	**236,130**	142,563
Total assets		**18,600,145**	16,492,471
Liabilities			
Due to banks and other financial institutions		**4,944,865**	4,154,983
Customer deposits		**10,478,048**	9,507,754
Certificates of deposit issued		**240,984**	-
Other liabilities	16	**224,454**	213,739
Total liabilities		**15,888,351**	13,876,476
Equity			
Share capital	17	**457,117**	435,349
Proposed bonus shares	18	**22,856**	21,768
Statutory reserve	17	**228,559**	217,675
Share premium account	17	**699,840**	699,840
Treasury shares	17	**(80,302)**	(79,171)
Treasury share reserve	17	**16,224**	17,957
Other reserves	17	**1,164,550**	1,113,097
Equity attributable to shareholders of the Bank		**2,508,844**	2,426,515
Non-controlling interests		**202,950**	189,480
Total equity		**2,711,794**	2,615,995
Total liabilities and equity		**18,600,145**	16,492,471

Nasser Musaed Abdullah Al-Sayer
Vice Chairman

Ibrahim Shucri Dabdoub
Group Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	**2013 KD 000's**	2012 KD 000's
Operating activities			
Profit for the year		**251,522**	308,597
Adjustments for:			
Net investment income	7	**(18,724)**	(109,817)
Share of results of associates		**(16,287)**	(13,377)
Depreciation of premises and equipment		**14,539**	13,706
Amortisation of intangible assets	14	**5,837**	4,053
Provision charge for credit losses	11	**143,563**	124,283
Impairment losses for investment securities	12	**5,183**	14,735
Share based payment reserve	19	**1,424**	1,868
Taxation	8	**18,886**	18,632
Operating profit before changes in operating assets and liabilities		**405,943**	362,680
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**79,693**	(159,774)
Kuwait Government treasury bonds		**35,963**	40,093
Deposits with banks		**303,746**	(229,985)
Loans, advances and Islamic financing to customers		**(978,656)**	(633,781)
Other assets		**(93,567)**	11,369
Due to banks and other financial institutions		**789,882**	(651,161)
Customer deposits		**970,294**	1,748,905
Certificates of deposit issued		**240,984**	-
Other liabilities		**43,647**	(3,852)
Tax paid		**(16,591)**	(18,824)
Net cash from operating activities		**1,781,338**	465,670
Investing activities			
Purchase of investment securities		**(1,547,486)**	(1,696,301)
Proceeds from sale/redemption of investment securities		**759,928**	1,739,061
Dividend income	7	**3,089**	3,550
Acquisition of a subsidiary, net of cash acquired		**-**	49,331
Acquisition of non-controlling interests		**-**	(733)
Additional investment in associates	13	**(21,914)**	-
Dividend from associates		**10,601**	10,474
Proceeds from sale of land, premises and equipment		**590**	888
Purchase of land, premises and equipment		**(15,843)**	(23,774)
Net cash (used in) from investing activities		**(811,035)**	82,496
Financing activities			
Dividends paid		**(128,248)**	(157,181)
Proceeds from sale of treasury shares		**197**	6,571
Purchase of treasury shares		**(3,061)**	(54,773)
Net cash used in financing activities		**(131,112)**	(205,383)
Increase in cash and short term funds		**839,191**	342,783
Exchange differences on translation of foreign operations		**(37,897)**	(3,270)
Cash and short term funds at the beginning of the year		**1,610,765**	1,271,252
Cash and short term funds at the end of the year	10	**2,412,059**	1,610,765

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

KD 000's

	Equity attributable to shareholders of the Bank									
	Share capital	*Proposed bonus shares*	*Statutory reserve*	*Share premium account*	*Treasury shares*	*Treasury share reserve*	*Other reserves (Note 17)*	*Total*	*Non - controlling interests*	*Total equity*
At 1 January 2012	395,772	39,577	197,886	699,840	(33,415)	20,403	1,004,545	2,324,608	11,965	2,336,573
Profit for the year	-	-	-	-	-	-	305,125	305,125	3,472	308,597
Other comprehensive income	-	-	-	-	-	-	714	714	752	1,466
Total comprehensive income	-	-	-	-	-	-	305,839	305,839	4,224	310,063
Transfer to statutory reserve (Note 17)	-	-	19,789	-	-	-	(19,789)	-	-	-
Issue of bonus shares (Note 18)	39,577	(39,577)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(54,773)	-	-	(54,773)	-	(54,773)
Sale of treasury shares	-	-	-	-	9,017	(2,446)	-	6,571	-	6,571
Dividends paid	-	-	-	-	-	-	(157,181)	(157,181)	-	(157,181)
Proposed bonus shares (Note 18)	-	21,768	-	-	-	-	(21,768)	-	-	-
Share based payment (Note 19)	-	-	-	-	-	-	1,844	1,844	24	1,868
Acquisition of non-controlling interests	-	-	-	-	-	-	(393)	(393)	(340)	(733)
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(101)	(101)
Acquisition of a subsidiary (As restated - Note 26)	-	-	-	-	-	-	-	-	173,708	173,708
At 31 December 2012 (restated)	435,349	21,768	217,675	699,840	(79,171)	17,957	1,113,097	2,426,515	189,480	2,615,995
Profit for the year	-	-	-	-	-	-	238,137	**238,137**	13,385	**251,522**
Other comprehensive loss	-	-	-	-	-	-	(25,986)	**(25,986)**	(4,075)	**(30,061)**
Total comprehensive income	-	-	-	-	-	-	**212,151**	**212,151**	**9,310**	**221,461**
Transfer to statutory reserve (Note 17)	-	-	10,884	-	-	-	(10,884)	**-**	-	**-**
Issue of bonus shares (Note 18)	21,768	(21,768)	-	-	-	-	-	**-**	-	**-**
Purchase of treasury shares	-	-	-	-	(3,061)	-	-	**(3,061)**	-	**(3,061)**
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	**197**	-	**197**
Dividends paid	-	-	-	-	-	-	(128,248)	**(128,248)**	-	**(128,248)**
Proposed bonus shares (Note 18)	-	22,856	-	-	-	-	(22,856)	**-**	-	**-**
Share based payment (Note 19)	-	-	-	-	-	-	1,290	**1,290**	134	**1,424**
Capital increase in a subsidiary	-	-	-	-	-	-	-	**-**	469	**469**
Dividend paid by subsidiary	-	-	-	-	-	-	-	**-**	(160)	**(160)**
Non-controlling interest in newly consolidated subsidiary	-	-	-	-	-	-	-	**-**	3,717	**3,717**
At 31 December 2013	**457,117**	**22,856**	**228,559**	**699,840**	**(80,302)**	**16,224**	**1,164,550**	**2,508,844**	**202,950**	**2,711,794**

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 2013 were authorised for issue in accordance with a resolution of the directors on 14 January 2014. 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 the 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 except that the Group has adopted the following new standards effective for the annual periods beginning on or after 1 January 2013. The adoption of these standards did not have any effect on the financial performance or financial position of the Group. They did however give rise to additional disclosures.

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control. Under IFRS 10, control is based on whether an investor has 1) power over the investee 2) exposure or rights to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

IFRS 12 – Disclosure of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of the consolidated entities.

IFRS 13 – Fair Value measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies (continued)

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 2014 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
IFRS 9, as issued, reflects the IASB's work on replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39.

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 21 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 equity (foreign currency translation reserve).

a. Translation of foreign currency transactions
Translation gains or losses on non-monetary items carried at fair value are included in equity 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 equity (foreign currency translation reserve) 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 commission income
Fee income earned from services provided over a period of time is recognised over the period of service. Fees arising from providing a transaction service are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 amortized 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 amortized 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Fair value measurement
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Inputs and assumptions used in valuation techniques mainly include weighted average cost of capital, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings.

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.

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 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.29 Goodwill and intangible assets (continued)

b. Intangible assets

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

2.30 Property acquired on settlement of debt

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

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

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

2.32 Islamic customer deposits

Islamic customer deposits comprise of 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 amortized 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 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 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.34 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.

2.35 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.

2.36 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.36 Significant accounting judgements and estimates (continued)

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 19.

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.

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.

3 SEGMENTAL ANALYSIS (continued)

2013

	Consumer and Private Banking KD 000's	**Corporate Banking KD 000's**	**Investment Banking and Asset Management KD 000's**	**Islamic Banking KD 000's**	**Group Centre KD 000's**	**International KD 000's**	**Total KD 000's**
Net interest income	**152,541**	**122,626**	**203**	**-**	**23,632**	**88,712**	**387,714**
Net income from Islamic financing	**-**	**-**	**-**	**63,760**	**-**	**-**	**63,760**
Share of results of associates	**-**	**-**	**-**	**725**	**-**	**15,562**	**16,287**
Net operating income	**200,891**	**164,803**	**24,306**	**68,821**	**26,953**	**140,476**	**626,250**
Depreciation and amortisation expenses	**4,753**	**512**	**101**	**1,699**	**10,303**	**3,008**	**20,376**
Profit (loss) for the year	**113,248**	**62,224**	**13,323**	**13,586**	**(20,604)**	**69,745**	**251,522**
Total Assets	**3,364,320**	**4,187,234**	**62,505**	**2,162,630**	**2,265,534**	**6,557,922**	**18,600,145**
Total Liabilities	**3,547,023**	**1,947,352**	**7,881**	**1,852,071**	**2,297,936**	**6,236,088**	**15,888,351**

2012

	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income	148,694	128,113	354	-	25,385	70,171	372,717
Net income from Islamic financing	-	-	-	25,107	-	-	25,107
Share of results of associates	-	-	-	716	-	12,661	13,377
Net operating income	195,150	165,398	25,580	24,862	112,910	126,030	649,930
Depreciation and amortisation expenses	4,732	509	143	931	8,373	3,071	17,759
Profit for the year	114,524	90,080	13,650	6,022	20,639	63,682	308,597
Total Assets (Restated)	3,148,826	4,136,216	60,644	1,795,878	2,257,855	5,093,052	16,492,471
Total Liabilities	3,182,758	1,640,999	5,971	1,621,549	2,712,366	4,712,833	13,876,476

Geographic information:

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

Net operating income	***2013 KD 000's***	*2012 KD 000's*
Kuwait	**485,774**	523,901
Other Middle East and North Africa	**103,622**	95,149
Europe	**20,392**	18,203
Others	**16,462**	12,677
	626,250	649,930

4 INTEREST INCOME

	2013 KD 000's	2012 KD 000's
Deposits with banks	**14,142**	11,226
Loans and advances to customers	**387,894**	397,859
Debt investment securities	**78,220**	71,291
Other	**9,072**	11,088
	489,328	491,464

5 INTEREST EXPENSE

	2013 KD 000's	2012 KD 000's
Due to banks and other financial institutions	**25,688**	37,217
Customer deposits	**75,614**	81,530
Certificates of deposit issued	**312**	-
	101,614	118,747

6 NET FEES AND COMMISSIONS

Gross fees and commission income amounted to KD 127,933 thousand (2012: KD 117,334 thousand) and related fees and commission expenses amounted to KD 16,958 thousand (2012: KD 13,937 thousand). Gross fees and commission income includes KD 25,478 thousand relating to trust and fiduciary activities (2012: KD 26,523 thousand).

7 NET INVESTMENT INCOME

	2013 KD 000's	2012 KD 000's
Net realised gains on available for sale investments	**13,747**	27,336
Net (losses) gains from investments carried at fair value through statement of income	**(138)**	3,058
Dividend income	**3,089**	3,550
Gain on fair valuation of previously held equity interest	**-**	81,514
Net gains (losses) from investment properties	**2,026**	(5,641)
	18,724	109,817

8 TAXATION

	2013 KD 000's	2012 KD 000's
Contribution to Kuwait Foundation for the Advancement of Sciences	**2,111**	1,836
National labour support tax	**4,187**	3,809
Zakat	**1,654**	1,499
Taxation on overseas branches and subsidiaries	**10,934**	11,488
	18,886	18,632

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year 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.

	2013 ***KD 000's***	*2012* *KD 000's*
Profit for the year attributable to shareholders of the Bank	**238,137**	305,125
Weighted average number of shares outstanding during the year (thousands)	**4,486,995**	4,519,291
Basic and diluted earnings per share	**53 fils**	68 fils

Earnings per share calculations for 2012 have been adjusted to take account of the bonus shares issued in 2013.

10 CASH AND SHORT TERM FUNDS

	2013 ***KD 000's***	*2012* *KD 000's*
Cash on hand and on current account with other banks	**1,343,229**	815,755
Money at call	**191,879**	176,486
Balances with the Central Bank of Kuwait	**170,794**	20,084
Deposits and Murabaha with banks maturing within seven days	**706,157**	598,440
	2,412,059	1,610,765

11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

2013	***Middle East and North Africa KD 000's***	***North America KD 000's***	***Europe KD 000's***	***Asia KD 000's***	***Others KD 000's***	***Total KD 000's***
Corporate	**6,926,475**	**155,013**	**285,905**	**134,109**	**184,052**	**7,685,554**
Retail	**3,442,310**	**86**	**2,820**	**-**	**-**	**3,445,216**
Loans, advances and Islamic financing to customers	**10,368,785**	**155,099**	**288,725**	**134,109**	**184,052**	**11,130,770**
Provision for credit losses						**(435,453)**
						10,695,317

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

2012	*Middle East and North Africa KD 000's*	*North America KD 000's*	*Europe KD 000's*	*Asia KD 000's*	*Others KD 000's*	*Total KD 000's*
Corporate	6,695,409	113,178	291,920	81,228	131,511	7,313,246
Retail	2,991,845	197	694	-	-	2,992,736
Loans, advances and Islamic financing to customers	9,687,254	113,375	292,614	81,228	131,511	10,305,982
Provision for credit losses (Restated – Note 26)						(445,362)
						9,860,620

Provisions for credit losses on cash facilities are as follows:

	Specific		*General*		*Total*	
	2013 KD 000's	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*
Balance at beginning of the year	**190,634**	143,242	**254,728**	176,582	**445,362**	319,824
Amounts written off net of exchange movement	**(152,347)**	(56,423)	**(1,291)**	(8)	**(153,638)**	(56,431)
Provisions at acquired subsidiary (Restated - Note 26)	**-**	31,725	**-**	27,147	**-**	58,872
Transfer	**39,546**	-	**(39,546)**	-	**-**	-
Provided during the year	**67,538**	72,090	**76,191**	51,007	**143,729**	123,097
Balance at end of the year	**145,371**	190,634	**290,082**	254,728	**435,453**	445,362

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

	Corporate		*Retail*		*Total*	
	2013 KD 000's	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*
Balance at beginning of the year	**140,435**	93,161	**50,199**	50,081	**190,634**	143,242
Amounts written off net of exchange movements	**(149,970)**	(47,895)	**(2,377)**	(8,528)	**(152,347)**	(56,423)
Provisions at acquired subsidiary (Restated - Note 26)	**-**	28,921	**-**	2,804	**-**	31,725
Transfer	**39,546**	-	**-**	-	**39,546**	-
Provided during the year	**52,835**	66,248	**14,703**	5,842	**67,538**	72,090
Balance at end of the year	**82,846**	140,435	**62,525**	50,199	**145,371**	190,634

Provisions at acquired subsidiary are stated for reconciliation purposes.

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

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

	Specific		*General*		*Total*	
	2013 KD 000's	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*	***2013 KD 000's***	*2012 KD 000's*
Cash facilities	**67,538**	72,090	**76,191**	51,007	**143,729**	123,097
Non cash facilities	**(854)**	777	**688**	409	**(166)**	1,186
Provision charge for credit losses	**66,684**	72,867	**76,879**	51,416	**143,563**	124,283

The available provision on non-cash facilities of KD 25,682 thousand (2012: KD 26,077 thousand) is included under other liabilities (Note 16).

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:

	2013 KD 000's	*2012 KD 000's*
Loans, advances and Islamic financing to customers	**217,894**	283,506
Provisions	**135,061**	151,047

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 2013 amounts to KD 87,091 thousand (2012: KD 141,560 thousand). The collateral consists of cash, securities, bank guarantees and properties.

12 FINANCIAL INVESTMENTS

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

2013	***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)	**72,506**	**1,031,773**	**-**	**1,104,279**
Debt securities - Non Government	**4,139**	**920,345**	**-**	**924,484**
Equities	**-**	**116,945**	**3,933**	**120,878**
Other investments	**-**	**146,349**	**54,185**	**200,534**
	76,645	**2,215,412**	**58,118**	**2,350,175**
Central Bank of Kuwait bonds	**534,459**	**-**	**-**	**534,459**
Kuwait Government treasury bonds	**320,248**	**-**	**-**	**320,248**
	931,352	**2,215,412**	**58,118**	**3,204,882**

12 FINANCIAL INVESTMENTS (continued)

2012	*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)	19,237	746,817	-	766,054
Debt securities - Non Government	6,433	430,831	-	437,264
Equities (Restated – Note 26)	-	101,222	33,961	135,183
Other investments (Restated – Note 26)	-	157,795	80,853	238,648
	25,670	1,436,665	114,814	1,577,149
Central Bank of Kuwait bonds	614,152	-	-	614,152
Kuwait Government treasury bonds	356,211	-	-	356,211
	996,033	1,436,665	114,814	2,547,512

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 3,204 thousand (2012: KD 4,908 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 5,183 thousand (2012: KD 14,735 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

13 INVESTMENT IN ASSOCIATES

Associates of the Group:

	Carrying value	
	2013 KD 000's	*2012 KD 000's*
International Bank of Qatar Q.S.C.	**137,445**	132,016
Bank Syariah Muamalat Indonesia T.B.K.	**49,750**	40,946
Bank of London and the Middle East	**37,785**	-
Turkish Bank A.S.	**26,114**	31,022
United Capital Bank	**4,482**	5,294
Others	**4,225**	3,897
	259,801	213,175

	Country of incorporation	***Principal business***	***% Effective ownership***	
			2013	*2012*
International Bank of Qatar Q.S.C.	Qatar	Banking	**30.0**	30.0
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	**30.5**	25.0
Bank of London and the Middle East	United Kingdom	Banking	**25.6**	-
Turkish Bank A.S.	Turkey	Banking	**36.4**	38.1
United Capital Bank	Sudan	Banking	**21.7**	21.7

13 INVESTMENT IN ASSOCIATES (continued)

During the year, the Group participated in the rights issue of Bank Syariah Muamalat Indonesia T.B.K. The Group also acquired additional equity interest by subscribing to the rights of certain non-participating shareholders which resulted in increase in holding of the Group from 25.03% to 30.45%.

During the year, the Group has also acquired an additional equity interest of 5.8% in Bank of London and the Middle East (previously classified as financial asset at fair value through income statement), increasing the effective holding from 19.8% to 25.6%. The Group reclassified the investment to associate from the date of acquiring additional equity interest.

Summarised financial information of material associates of the Group is as follows:

2013	***International Bank of Qatar Q.S.C. KD 000's***	***Bank Syariah Muamalat Indonesia T.B.K. KD 000's***
Assets	**2,222,759**	**1,210,065**
Liabilities	**1,877,921**	**1,140,281**
Net assets	**344,838**	**69,784**
Contingent liabilities	**754,990**	**28,645**
Net operating income	**70,478**	**62,369**
Results for the year	**42,885**	**13,667**
Other comprehensive income for the year	**8,064**	**262**

2012	*International Bank of Qatar Q.S.C. KD 000's*	*Bank Syariah Muamalat Indonesia T.B.K. KD 000's*
Assets	2,487,963	1,126,901
Liabilities	2,160,901	1,056,798
Net assets	327,062	70,103
Contingent liabilities	803,353	36,053
Net operating income	68,862	56,256
Results for the year	40,547	11,600
Other comprehensive loss for the year	(11)	(1,742)

Other associates	***2013 KD 000's***	*2012 KD 000's*
Share of results for the year	**27**	121
Share of other comprehensive (loss) income for the year	**(15)**	184

During the year, the Group has received dividend amounting to KD 10,315 thousand from International Bank of Qatar Q.S.C. (2012: KD 10,184 thousand) and KD 286 thousand from other associates (2012: KD 290 thousand).

14 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill KD 000's	***Intangible Assets KD 000's***	***Total KD 000's***
Cost			
At 1 January 2013	**494,977**	**247,581**	**742,558**
Exchange adjustments	**(14,548)**	**(4,341)**	**(18,889)**
At 31 December 2013	**480,429**	**243,240**	**723,669**
Accumulated amortisation			
At 1 January 2013	**-**	**19,625**	**19,625**
Charge for the year	**-**	**5,837**	**5,837**
Exchange adjustments	**-**	**(1,878)**	**(1,878)**
At 31 December 2013	**-**	**23,584**	**23,584**
Net book value			
At 31 December 2013	**480,429**	**219,656**	**700,085**

	Goodwill KD 000's	*Intangible assets KD 000's*	*Total KD 000's*
Cost			
At 1 January 2012	165,873	65,877	231,750
Acquisition of a subsidiary (Restated – Note 26)	334,531	183,330	517,861
Exchange adjustments	(5,427)	(1,626)	(7,053)
At 31 December 2012	494,977	247,581	742,558
Accumulated amortisation			
At 1 January 2012	-	16,247	16,247
Charge for the year	-	4,053	4,053
Exchange adjustments	-	(675)	(675)
At 31 December 2012	-	19,625	19,625
Net book value			
At 31 December 2012	494,977	227,956	722,933

Net book value of goodwill as at 31 December 2013 includes KD 334,531 thousand (2012: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 143,122 thousand (2012: KD 157,678 thousand) in respect of Al Watany Bank of Egypt S.A.E. (AWB) and KD 2,776 thousand (2012: KD 2,768 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2013 includes banking licenses and brand amounting to KD 176,844 thousand (2012: KD 182,060 thousand), customer relationships and core deposits amounting to KD 24,853 thousand (2012: KD 27,895 thousand) and brokerage licenses amounting to KD 17,959 thousand (2012: KD 18,001 thousand). Intangible assets with indefinite useful life amounts to KD 176,582 (2012: KD 176,624 thousand). Intangible assets with definite useful life amounting to KD 43,074 (2012: KD 51,332 thousand) are amortised over a period of 5 to 15 years.

14 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

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

Since the fair value of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. A discount rate of 9% (2012: 9%) is used to estimate the recoverable amount of a Brokerage license in Kuwait. The goodwill in respect of AWB is allocated to a single CGU which consists of identifiable net assets including intangible assets of AWB. A discount rate of 15.5% (2012: 14.2%) is used to estimate the recoverable amount of this cash generating unit. A terminal growth rate of 5% (2012: 5%) is applied in all cases. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill or intangible assets are impaired.

15 OTHER ASSETS

	2013 ***KD 000's***	*2012* *KD 000's*
Interest receivable	**36,971**	36,589
Sundry debtors and prepayments	**71,283**	39,412
Investment properties (Restated – Note 26)	**30,246**	14,460
Property acquired on settlement of debts	**51,155**	21,898
Others	**46,475**	30,204
	236,130	142,563

16 OTHER LIABILITIES

	2013 ***KD 000's***	*2012* *KD 000's*
Interest payable	**28,412**	29,214
Income received in advance	**18,610**	17,223
Taxation	**16,674**	14,379
Provision on non-cash facilities (Note 11)	**25,682**	26,077
Accrued expenses	**31,423**	26,344
Staff payables	**27,251**	23,628
Others	**76,402**	76,874
	224,454	213,739

17 SHARE CAPITAL AND RESERVES

a) Share capital

	2013	*2012*
	KD 000's	*KD 000's*
Authorised, issued and fully paid:		
4,571,172,506 (2012 : 4,353,497,625) shares of KD 0.100 each	**457,117**	435,349

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

	2013	*2012*
Number of shares in issue as at 1 January	**4,353,497,625**	3,957,725,114
Bonus issue	**217,674,881**	395,772,511
Number of shares in issue as at 31 December	**4,571,172,506**	4,353,497,625

b) Statutory reserve

The Board of Directors recommended a transfer of KD 10,884 thousand (2012: KD 19,789 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:

	2013	*2012*
Number of treasury shares	**85,782,085**	80,527,958
Treasury shares as a percentage of total shares in issue	**1.9%**	1.8%
Cost of treasury shares (KD thousand)	**80,302**	79,171
Market value of treasury shares (KD thousand)	**76,346**	77,307

Movement in treasury shares was as follows:

	No. of shares	
	2013	*2012*
Balance as at 1 January	**80,527,958**	30,423,135
Purchases	**3,288,465**	56,186,226
Bonus issue	**3,928,267**	2,819,167
Sales	**(1,962,605)**	(8,900,570)
Balance as at 31 December	**85,782,085**	80,527,958

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

17 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

KD 000's

	General reserve	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair values*	*Share based payment reserve*	*Proposed cash dividend*	*Total other reserves*
At 1 January 2012	117,058	729,601	(33,032)	23,357	10,469	157,092	1,004,545
Profit for the year	-	305,125	-	-	-	-	305,125
Other comprehensive (loss) income	-	-	(2,490)	3,204	-	-	714
Total comprehensive income (loss)	-	305,125	(2,490)	3,204	-	-	305,839
Transfer to statutory reserve (Note 17b)	-	(19,789)	-	-	-	-	(19,789)
Dividends paid	-	-	-	-	-	(157,181)	(157,181)
Dividends on treasury shares sold	-	(89)	-	-	-	89	-
Proposed bonus shares (Note 18)	-	(21,768)	-	-	-	-	(21,768)
Proposed cash dividend 30 fils per share (Note 18)	-	(128,189)	-	-	-	128,189	-
Share based payment (Note 19)	-	-	-	-	1,844	-	1,844
Acquisition of non-controlling interests	-	(393)	-	-	-	-	(393)
At 31 December 2012	117,058	864,498	(35,522)	26,561	12,313	128,189	1,113,097
Profit for the year	-	238,137	-	-	-	-	**238,137**
Other comprehensive (loss) income	-	-	(34,244)	8,258	-	-	**(25,986)**
Total comprehensive income (loss)	-	**238,137**	**(34,244)**	**8,258**	-	-	**212,151**
Transfer to statutory reserve (Note 17b)	-	(10,884)	-	-	-	-	**(10,884)**
Dividends paid	-	-	-	-	-	(128,248)	**(128,248)**
Dividends on treasury shares sold	-	(59)	-	-	-	59	**-**
Proposed bonus shares (Note 18)	-	(22,856)	-	-	-	-	**(22,856)**
Proposed cash dividend 30 fils per share (Note 18)	-	(134,562)	-	-	-	134,562	**-**
Share based payment (Note 19)	-	-	-	-	1,290	-	**1,290**
At 31 December 2013	**117,058**	**934,274**	**(69,766)**	**34,819**	**13,603**	**134,562**	**1,164,550**

17 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable.

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.

18 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2012: 30 fils per share) and bonus shares of 5% (2012: 5%) on outstanding shares as at 31 December 2013. The proposed dividend, if approved, shall be payable to the shareholders registered in the Bank's records as of the date of the annual general assembly meeting.

19 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 0.780 (2012: KD 0.914). The significant inputs into the model were a share price of KD 0.960 (2012: KD 1.120) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 33.8% (2012: 45.6%), option life disclosed above and annual risk free interest rate of 2% (2012: 2.50%). 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:

	2013	*2012*
	No. of share options	*No. of share options*
Outstanding at 1 January	**5,691,190**	7,132,651
Granted during the year	**2,134,004**	1,666,920
Exercised during the year	**(1,962,605)**	(2,510,570)
Lapsed during the year	**(788,681)**	(597,811)
Outstanding at 31 December	**5,073,908**	5,691,190

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 1,424 thousand (2012: KD 1,868 thousand) and is included under staff expenses.

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

The fair value of investment securities, quoted in an active market (stock exchanges and actively traded funds) amounts to KD 1,252,251 thousand (2012: KD 590,987 thousand) for debt securities and KD 189,571 thousand (2012: KD 187,442 thousand) for equities and other investments. Investment securities, which are tradable over the counter and / or are valued by using a significant input of observable market data amounts to KD 654,967 thousand (2012: KD 541,131 thousand) for debt securities and KD 39,018 thousand (2012: KD 88,680 thousand) for equities and other investments. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Investment securities, for which a significant input of the valuation is not based on observable market data amounts to KD 44,900 thousand (2012: KD 45,530 thousand) for debt securities and KD 89,619 thousand (2012: KD 95,502 thousand) for equities and other investments. The table below analyses the movement in these investment securities and the income (interest, dividend and realised gain) generated during the year.

	At 1 January 2013 KD 000's	***Change in fair value KD 000's***	***Additions KD 000's***	***Sale/ redemption KD 000's***	***Exchange rate movements KD 000's***	***At 31 December 2013 KD 000's***	***Net gains in the consolidated statement of income KD 000's***
Debt securities	**45,530**	**-**	**-**	**(789)**	**159**	**44,900**	**1,451**
Equities and other investments	**95,502**	**3,447**	**5,767**	**(15,234)**	**137**	**89,619**	**6,150**
	141,032	**3,447**	**5,767**	**(16,023)**	**296**	**134,519**	**7,601**

	At 1 January 2012 KD 000's	*Change in fair value KD 000's*	*Additions KD 000's*	*Sale/ redemption KD 000's*	*Exchange rate movements KD 000's*	*At 31 December 2012 KD 000's*	*Net gains in the consolidated statement of income KD 000's*
Debt securities	55,476	-	30,406	(40,852)	500	45,530	1,455
Equities and other investments	62,917	5,358	31,118	(4,012)	121	95,502	3,791
	118,393	5,358	61,524	(44,864)	621	141,032	5,246

The positive and negative fair values of interest rate swaps and forward foreign exchange contracts, which are valued using significant inputs of observable market data, amount to KD 15,837 thousand (2012: KD 12,529 thousand) and KD 13,799 thousand (2012: KD 17,430 thousand) respectively (refer note 23 for details).

Other financial assets and liabilities are carried at amortized 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.

21 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	*Country of incorporation*	*Principal business*	*% Effective ownership*	
			2013	*2012*
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 management	**100.0**	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	**81.0**	81.0
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
Al Watany Bank of 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 2013, 38.1 % (2012: 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.

Boubyan Bank K.S.C.P. became subsidiary of the Group during the year ended 31 December 2012 (Note 26).

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 29.

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

	2013 KD 000's	*2012 KD 000's*
Accumulated balances of non-controlling interest	**189,530**	177,043
Profit attributable to non-controlling interest	**12,500**	2,578

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

Summarised financial information	***2013 KD 000's***	*2012 KD 000's*
Assets	**2,192,985**	1,884,656
Liabilities	**1,922,632**	1,628,492
Net operating income	**67,074**	58,879
Results for the year	**13,586**	9,536
Other comprehensive loss for the year	**(3,438)**	(723)

Summarised cash flow information	***2013 KD 000's***	*2012 KD 000's*
Operating cash flow	**49,151**	(25,985)
Investing cash flow	**(16,777)**	2,565
Financing cash flow	**3,717**	993

22 COMMITMENTS AND CONTINGENT LIABILITIES

	2013	*2012*
	KD 000's	*KD 000's*
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	**46,699**	85,689
Letters of credit	**299,048**	307,416
Guarantees	**2,237,844**	2,067,690
	2,583,591	2,460,795

Irrevocable commitments to extend credit amount to KD 453,151 thousand (31 December 2012: KD 318,110 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.

23 INTEREST RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS

Interest rate swaps and forward foreign exchange contracts are financial instruments that derive their value by referring to interest rates and foreign exchange rates respectively. 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.

Interest rate swaps and forward foreign exchange contracts 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 interest rate swaps and forward foreign exchange contracts are 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 asset and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualify as effective hedging instruments are shown as interest rate swaps held as fair value hedges. 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 interest rate swaps and forward foreign exchange contracts for customers are covered by entering into similar transactions 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.

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

23 INTEREST RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS (continued)

The fair value of interest rate swaps and forward foreign exchange contracts included in the financial records, together with their notional amounts is summarised as follows:

	2013			*2012*		
	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)	**6,861**	**10,953**	**398,057**	21	14,348	136,480
Forward foreign exchange	**8,976**	**2,846**	**1,027,343**	12,508	3,082	895,735
	15,837	**13,799**	**1,425,400**	12,529	17,430	1,032,215

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2013 is negative KD 4,092 thousand (2012: negative KD 14,327 thousand). Gain on the hedged fixed income financial assets amounted to KD 6,250 thousand (2012: KD 15,131 thousand).

24 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***			
	2013	*2012*	***2013***	*2012*	***2013 KD 000's***	*2012 KD 000's*
Board Members						
Loans (secured)	**4**	4	**16**	17	**197,421**	204,635
Contingent liabilities	**1**	1	**13**	12	**27,975**	13,446
Credit cards	**7**	8	**10**	12	**60**	59
Deposits	**9**	9	**59**	62	**24,128**	28,376
Collateral against credit facilities	**4**	4	**16**	16	**349,213**	363,105
Interest and fee income					**7,009**	7,650
Interest expense					**83**	381
Executive Officers						
Loans	**5**	3	**2**	1	**1,388**	1,290
Contingent liabilities	**4**	2	**-**	-	**7**	6
Credit cards	**12**	5	**2**	2	**35**	23
Deposits	**14**	8	**23**	23	**1,704**	1,283
Interest and fee income					**53**	50
Interest expense					**1**	2
Associates						
Placements					**78,160**	195,268
Acceptances					**745**	544

25 KEY MANAGEMENT COMPENSATION

Details of compensation to key management personnel are as follows:

	2013	*(Restated) 2012*
	KD 000's	*KD 000's*
Salaries and other short term benefits	**3,455**	3,564
Post-employment benefits	**251**	378
Share based compensation	**302**	479
	4,008	4,421

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

26 BUSINESS COMBINATION

The Bank obtained control of Boubyan Bank K.S.C.P. during 2012 and provisional values were assigned to the identifiable assets and liabilities acquired pending finalisation of the purchase price allocation (PPA) exercise. During the period, the Bank completed the PPA exercise in accordance with requirements of IFRS 3 'Business Combinations' by allocating a portion of the provisional goodwill to various intangible assets identified and fair valuing certain tangible assets. The residual value was accounted as goodwill which represents the future economic benefits arising from assets acquired in the business combination that are not individually identified and separately recognised.

Intangible assets identified were Islamic Banking license and brand amounting to KD 158,623 thousand with indefinite useful life and customer relationship and core deposits amounting to KD 24,707 thousand with useful life of 15 years. The fair value of net assets acquired have been adjusted by reducing the Islamic financing to customers by KD 13,802 thousand, Investment securities by KD 2,701 thousand and other assets by KD 3,444 thousand. The fair value of other assets and liabilities (including contingent liabilities) acquired, do not materially differ from their provisionally determined carrying values. The impact of above adjustments have resulted in decrease in goodwill by KD 95,399 thousand and increase in non-controlling interests by KD 67,984 thousand. The comparative numbers in the consolidated statement of financial position presented for 31 December 2012 have been restated to reflect the above fair value adjustments. The impact of restatement on the consolidated statement of income is not material, and therefore the same has been recognised in the current year.

27 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.

27 RISK MANAGEMENT (continued)

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

27.1 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 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.

27.1. 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:

	2013		*2012*	
	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	**10,695,317**	**6,797,205**	9,860,620	6,482,479
Contingent liabilities	**2,583,591**	**2,412,151**	2,460,795	2,356,279

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.

27 RISK MANAGEMENT (continued)

27.1 CREDIT RISK (continued)

27.1. 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 2013 is 18% (2012: 19%).

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:

2013 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*
Cash and deposits with banks	**1,927,111**	**1,047,033**	**277,052**	**60,535**	-	**3,311,731**
Central Bank of Kuwait bonds	**534,459**	-	-	-	-	**534,459**
Kuwait Government treasury Bonds	**320,248**	-	-	-	-	**320,248**
Loans, advances and Islamic financing to customers	**9,941,635**	**153,175**	**285,141**	**133,007**	**182,359**	**10,695,317**
Held to maturity investments	**65,498**	-	-	**11,147**	-	**76,645**
Available for sale investments	**1,492,899**	**46,750**	**130,772**	**273,387**	**8,310**	**1,952,118**
Other assets	**146,451**	**1,500**	**5,527**	**1,179**	**72**	**154,729**
	14,428,301	**1,248,458**	**698,492**	**479,255**	**190,741**	**17,045,247**
Commitments and contingent liabilities (Note 22)	**1,810,998**	**220,327**	**436,590**	**568,272**	**555**	**3,036,742**
	16,239,299	**1,468,785**	**1,135,082**	**1,047,527**	**191,296**	**20,081,989**

2012 **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*
Cash and deposits with banks	1,932,651	545,488	288,612	47,432	-	2,814,183
Central Bank of Kuwait bonds	614,152	-	-	-	-	614,152
Kuwait Government treasury Bonds	356,211	-	-	-	-	356,211
Loans, advances and Islamic financing to customers	9,248,115	111,924	289,388	80,720	130,473	9,860,620
Held to maturity investments	16,922	-	-	8,748	-	25,670
Available for sale investments	1,003,684	19,312	92,771	61,881	-	1,177,648
Other assets	99,392	1,271	4,692	850	-	106,205
	13,271,127	677,995	675,463	199,631	130,473	14,954,689
Commitments and contingent liabilities (Note 22)	1,699,403	180,859	391,990	504,553	2,100	2,778,905
	14,970,530	858,854	1,067,453	704,184	132,573	17,733,594

27 RISK MANAGEMENT (continued)

27.1 CREDIT RISK (continued)

27.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

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

	2013 *KD 000's*	*2012* *KD 000's*
Industry sector		
Trading	**1,910,412**	1,689,277
Manufacturing	**1,200,670**	1,068,342
Banks and other financial institutions	**6,065,391**	5,209,827
Construction	**1,128,366**	990,787
Real Estate	**2,114,007**	1,974,608
Retail	**3,341,919**	2,906,121
Government	**1,556,393**	1,292,891
Others	**2,764,831**	2,601,741
	20,081,989	17,733,594

27.1. 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 asset 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***
2013	***KD 000's***	***KD 000's***	***KD 000's***	***KD 000's***
Deposits and Murabaha with banks maturing within seven days	**706,157**	-	-	**706,157**
Central Bank of Kuwait bonds	**534,459**	-	-	**534,459**
Kuwait Government treasury bonds	**320,248**	-	-	**320,248**
Deposits with banks	**767,864**	**131,808**	-	**899,672**
Loans, advances and Islamic financing to customers	**9,184,401**	**1,667,444**	**278,925**	**11,130,770**
Held to maturity investments	**11,147**	**65,498**	-	**76,645**
Available for sale investments	**1,445,052**	**507,066**	-	**1,952,118**
	12,969,328	**2,371,816**	**278,925**	**15,620,069**
2012				
Deposits and Murabaha with banks maturing within seven days	598,440	-	-	598,440
Central Bank of Kuwait bonds	614,152	-	-	614,152
Kuwait Government treasury bonds	356,211	-	-	356,211
Deposits with banks	1,141,648	61,770	-	1,203,418
Loans, advances and Islamic financing to customers	8,228,225	1,738,183	339,574	10,305,982
Held to maturity investments	8,748	16,922	-	25,670
Available for sale investments	743,117	434,531	-	1,177,648
	11,690,541	2,251,406	339,574	14,281,521

27 RISK MANAGEMENT (continued)

27.1 CREDIT RISK (continued)

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

	Corporate		*Retail*		*Total*	
	Past due and not impaired KD 000's	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*	*Past due and not impaired KD 000's*	*Past due and impaired KD 000's*
2013						
Up to 30 days	**6,655**	-	**25,182**	-	**31,837**	-
31 - 60 days	**1,505**	-	**9,120**	-	**10,625**	-
61 - 90 days	**16,344**	-	**2,225**	-	**18,569**	-
91-180 days	-	**1,541**	-	**15,334**	-	**16,875**
More than 180 days	-	**139,592**	-	**61,427**	-	**201,019**
	24,504	**141,133**	**36,527**	**76,761**	**61,031**	**217,894**
2012						
Up to 30 days	12,789	-	21,467	-	34,256	-
31 - 60 days	2,049	-	9,655	-	11,704	-
61 - 90 days	8,766	-	1,342	-	10,108	-
91-180 days	-	16,842	-	11,375	-	28,217
More than 180 days	-	206,230	-	49,059	-	255,289
	23,604	223,072	32,464	60,434	56,068	283,506

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 2013 was KD 103,145 thousand (2012: KD 154,869 thousand).

27 RISK MANAGEMENT (continued)

27.2 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.

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2013				
Assets				
Cash and deposits with banks	**3,169,693**	**142,038**	**-**	**3,311,731**
Central Bank of Kuwait bonds	**358,419**	**176,040**	**-**	**534,459**
Kuwait Government treasury bonds	**24,766**	**174,796**	**120,686**	**320,248**
Loans, advances and Islamic financing to Customers	**3,863,163**	**1,466,606**	**5,365,548**	**10,695,317**
Held to maturity investments	**67,976**	**1,129**	**7,540**	**76,645**
Available for sale investments	**206,658**	**278,549**	**1,730,205**	**2,215,412**
Investments carried at fair value through statement of income	**58,118**	**-**	**-**	**58,118**
Investment in associates	**-**	**-**	**259,801**	**259,801**
Land, premises and equipment	**-**	**-**	**192,199**	**192,199**
Goodwill and other intangible assets	**-**	**-**	**700,085**	**700,085**
Other assets	**100,708**	**54,021**	**81,401**	**236,130**
	7,849,501	**2,293,179**	**8,457,465**	**18,600,145**
Liabilities and equity				
Due to banks and other financial institutions	**3,954,060**	**917,400**	**73,405**	**4,944,865**
Customer deposits	**9,038,550**	**1,231,013**	**208,485**	**10,478,048**
Certificates of deposit issued	**235,343**	**5,641**	**-**	**240,984**
Other liabilities	**171,522**	**-**	**52,932**	**224,454**
Share capital and reserves	**-**	**-**	**2,374,282**	**2,374,282**
Proposed cash dividend	**134,562**	**-**	**-**	**134,562**
Non-controlling interests	**-**	**-**	**202,950**	**202,950**
	13,534,037	**2,154,054**	**2,912,054**	**18,600,145**

27 RISK MANAGEMENT (continued)

27.2 LIQUIDITY RISK (continued)

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2012				
Assets				
Cash and deposits with banks	2,730,473	79,491	4,219	2,814,183
Central Bank of Kuwait bonds	444,626	169,526	-	614,152
Kuwait Government treasury bonds	93,184	162,454	100,573	356,211
Loans, advances and Islamic financing to customers	3,924,764	2,059,483	3,876,373	9,860,620
Held to maturity investments	19,237	-	6,433	25,670
Available for sale investments	175,377	280,722	980,566	1,436,665
Investments carried at fair value through statement of income	114,814	-	-	114,814
Investment in associates	-	-	213,175	213,175
Land, premises and equipment	-	-	191,485	191,485
Goodwill and other intangible assets	-	-	722,933	722,933
Other assets	84,166	22,039	36,358	142,563
	7,586,641	2,773,715	6,132,115	16,492,471
Liabilities and equity				
Due to banks and other financial institutions	3,330,196	732,124	92,663	4,154,983
Customer deposits	7,954,248	1,259,383	294,123	9,507,754
Other liabilities	164,035	-	49,704	213,739
Share capital and reserves	-	-	2,298,326	2,298,326
Proposed cash dividend	128,189	-	-	128,189
Non-controlling interests	-	-	189,480	189,480
	11,576,668	1,991,507	2,924,296	16,492,471

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 KD 000's	***3 to 12 months KD 000's***	***Over 1 year KD 000's***	***Total KD 000's***
2013				
Financial Liabilities				
Due to banks and other financial institutions	**3,956,268**	**921,453**	**76,630**	**4,954,351**
Customer deposits	**9,058,005**	**1,254,496**	**224,108**	**10,536,609**
Certificates of deposit issued	**235,460**	**5,646**	**-**	**241,106**
	13,249,733	**2,181,595**	**300,738**	**15,732,066**
Contingent liabilities and commitments				
Contingent liabilities	**762,777**	**733,579**	**1,087,235**	**2,583,591**
Irrevocable commitments	**128,936**	**154,883**	**169,332**	**453,151**
	891,713	**888,462**	**1,256,567**	**3,036,742**
Forward foreign exchange contracts settled on a gross basis				
Contractual amounts payable	**902,146**	**119,657**	**1,595**	**1,023,398**
Contractual amounts receivable	**897,344**	**117,160**	**1,595**	**1,016,099**

27 RISK MANAGEMENT (continued)

27.2 LIQUIDITY RISK (continued)

	Up to 3 months KD 000's	*3 to 12 months KD 000's*	*Over 1 year KD 000's*	*Total KD 000's*
2012				
Financial Liabilities				
Due to banks and other financial institutions	3,333,216	737,174	96,564	4,166,954
Customer deposits	7,977,762	1,276,632	325,485	9,579,879
	11,310,978	2,013,806	422,049	13,746,833
Contingent liabilities and commitments				
Contingent liabilities	758,184	757,310	945,301	2,460,795
Irrevocable commitments	25,947	190,189	101,974	318,110
	784,131	947,499	1,047,275	2,778,905
Forward foreign exchange contracts settled on a gross basis				
Contractual amounts payable	747,882	141,532	3,758	893,172
Contractual amounts receivable	739,415	139,394	3,758	882,567

27.3 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.

27.3.1 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 reverse cumulative interest rate gap is carefully monitored on a daily basis and adjusted where necessary to reflect 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 of 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:

27 RISK MANAGEMENT (continued)

27.3 MARKET RISK (continued)

27.3.1 INTEREST RATE RISK (continued)

		2013		*2012*	
		Effect on profit KD 000's	***Effect on equity KD 000's***	*Effect on profit KD 000's*	*Effect on equity KD 000's*
Currency	**Movement in Basis points**				
KWD	+25	**4,380**	**-**	4,624	-
USD	+25	**(2,305)**	**(4,908)**	(1,041)	(2,867)
EUR	+25	**(168)**	**(16)**	(186)	(19)
GBP	+25	**(81)**	**-**	(51)	-
EGP	+25	**149**	**(457)**	97	(325)

27.3.2 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. 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.

		2013		*2012*	
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	**187**	**1,106**	1,586	1,003
GBP	+5	**74**	-	(711)	-
EUR	+5	**216**	-	(454)	-
EGP	+5	**182**	**10,606**	228	11,846
QAR	+5	-	**5,520**	-	5,538
TRY	+5	-	**1,290**	-	1,521
IDR	+5	-	**2,615**	-	2,043
Other	+5	**(314)**	**4,094**	119	3,120

27.3.3 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.

27 RISK MANAGEMENT (continued)

27.3 MARKET RISK (continued)

27.3.3 EQUITY PRICE RISK (continued)

Market indices	% Change in equity price	2013 Effect on profit KD 000's	2013 Effect on equity KD 000's	2012 Effect on profit KD 000's	2012 Effect on equity KD 000's
Kuwait stock exchange	+5	**51**	**1,090**	51	767
Doha securities market	+5	-	**555**	-	424

27.4 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.

28 CAPITAL

A key Group objective is to maximise shareholder value with optimal levels of risk and to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait. The Group's regulatory capital and capital adequacy ratios are shown below:

	2013 **KD 000's**	*(Restated)* *2012* *KD 000's*
Risk Weighted Assets	**11,253,031**	10,298,557
Capital required	**1,350,364**	1,235,827
Capital available		
Tier 1 capital	**1,891,918**	1,820,791
Tier 2 capital	**56,128**	62,477
Total capital	**1,948,046**	1,883,268
Tier 1 capital adequacy ratio	**16.8%**	17.7%
Total capital adequacy ratio	**17.3%**	18.3%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/BS/184/2005 dated 21 December 2005 are included under the 'Risk Management' section of the annual report.

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary (note 26). 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.

29 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 2013, funds under management were KD 3,067 million (2012: KD 2,817 million).

30 FAMILY SUPPORT FUND

During the year, the Central Bank of Kuwait issued its Circular No. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. Ministry of Finance has established a Fund to purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. The Bank has submitted its report on the list of loans eligible for the Fund.

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