

# **Consolidated Financial Statements and Independent Auditors' Report**

For the year ended 31 December 2014

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## Board of Directors' Report

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of National Bank of Kuwait SAKP ("the Bank") and its subsidiaries (collectively "the Group") for the year ended 31 December 2014.

### 2014 Financial Performance

The Group reported a net profit after non-controlling interests of KD 261.8 million compared to KD 238.1 million for 2013, an increase of 9.9%. Operating profit amounted to KD 446 million as compared to KD 419.2 million in 2013.

Net interest income and net income from Islamic financing at KD 469.3 million reflects a 4% increase on 2013 (KD 451.5 million). Net fees and commissions at KD 121.8 million reflects a 9.8% increase on 2013 (KD 110.9 million). Investment income amounted to KD 33.1 million as compared to KD 18.7 million in 2013.

Operating expenses amounted to KD 215.1 million as compared to KD 207.1 million in 2013. The cost to income ratio for 2014 stood at 32.5% as compared to 33.1% in 2013.

Impairment provisions for credit facilities and investments amounted to KD 146.7 million as compared to KD 148.7 million in 2013.

The return on average equity for 2014 increased to 10.5% from 10% in 2013.

### 2014 Balance Sheet

Total assets of the Group grew to KD 21,784.1 million, from KD 18,600.1 million at the end of 2013. Loans, advances and Islamic financing to customers increased by KD 1,213.4 million, to KD 11,908.7 million. Investment securities increased by KD 143.5 million, to KD 2,493.7 million at the year end.

During the year, the Bank entered in to an agreement to sell its investment in International Bank of Qatar QSC and reclassified the investment amounting to KD 138.4 million to an associate held for sale in the consolidated statement of financial position. The sale transaction was completed subsequent to the year end.

The Group maintained a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 4,011.2 million at the year end. Deposits with banks amounted to KD 2,050.5 million at the year end.

The Group's general provisions in respect of on-balance sheet credit facilities amounted to KD 375.8 million at the year end as compared to KD 290.1 million in 2013, whilst specific provisions decreased to KD 138.8 million from KD 145.4 million in 2013. The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral profiles and values are continually monitored to ensure that optimum protection is afforded to the Group at all times.

Customer deposits increased by KD 781.7 million, to KD 11,259.7 million at the year end. The Group benefits from a loyal Kuwaiti customer base whose deposits remain a continuing source of stable funding. Due to banks and financial institutions increased by KD 1,760.8 million, to KD 6,705.7 million at the year end. Certificates of Deposit issued increased by KD 434.1 million, to KD 675.1 million at the year end.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 208.1 million at the year end against collateral of KD 293.5 million. Deposits of Board members and related parties were KD 25 million. Loans and facilities to the Group's executive management amounted to KD 217 thousand whilst deposits of the Group's executive management amounted to KD 2,056 thousand.

### Equity Attributable to the Shareholders of the Bank

Total equity attributable to the shareholders of the Bank, after deducting the proposed cash dividend of KD 141.3 million, amounted to KD 2,511.9 million as compared to KD 2,374.3 million at the end of 2013.

The Basel III capital adequacy ratio was 14.5% at the year end as compared to the CBK prescribed regulatory minimum of 12%. Similarly, the leverage ratio was 7.8% at the year end compared to the CBK prescribed regulatory minimum of 3%.

### Capital Market Authority Requirements

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

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

### Share Based Compensation Plan

The Bank operates an equity settled share based compensation plan and granted 2,611,732 (2013: 2,134,004) share options to senior executives in 2014 with a fair value of KD 0.710 (2013: KD 0.780) per share option. The Bank operates this plan as an incentive to retain eligible employees, enhance loyalty to the Bank and to attract experienced and skilled personnel.

As per the provisions of this plan, these options will remain fully owned by the bank and will vest if employees remain in service for a period of three years from the grant date. Employees can exercise the options within one year from the vesting date. Options will expire if employees do not exercise them within one year from the vesting date.

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

### Bonus Shares, Dividends and Proposed Appropriations

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

1. KD 141.3 million to the dividend account for the distribution of a cash dividend of 30 fils per share (30 fils in 2013) subject to the approval of shareholders at the annual general meeting.
2. KD 24 million to the share capital account to cover the issuance of bonus shares equal to 5% of share capital at the end of 2014 (5% for 2013) (equivalent to 239,986,556 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 11.4 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 85.1 million to retained earnings.

### Important Financial Indicators

KD million	2014	2013	2012
Total assets	21,784.1	18,600.1	16,492.5
Loans, advances and Islamic financing to customers	11,908.7	10,695.3	9,860.6
Customer deposits	11,259.7	10,478.0	9,507.8
Total operating income	661.0	626.3	649.9
Profit attributable to shareholders of the parent Bank	261.8	238.1	305.1

## Consolidated Financial Statements

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## Consolidated Statement of Income

For the year ended 31 December 2014

	Notes	2014 KD 000's	2013 KD 000's	2014 USD 000's	2013 USD 000's
Interest income	4	513,518	489,328	1,753,818	1,671,202
Interest expense	5	114,046	101,614	389,501	347,042
<b>Net interest income</b>		<b>399,472</b>	387,714	<b>1,364,317</b>	1,324,160
Murabaha and other Islamic financing income		87,061	73,836	297,339	252,172
Distribution to depositors and Murabaha costs		17,195	10,076	58,726	34,413
<b>Net income from Islamic financing</b>		<b>69,866</b>	63,760	<b>238,613</b>	217,759
<b>Net interest income and net income from Islamic financing</b>		<b>469,338</b>	451,474	<b>1,602,930</b>	1,541,919
Net fees and commissions	6	121,846	110,975	416,141	379,013
Net investment income	7	33,132	18,724	113,156	63,948
Net gains from dealing in foreign currencies		27,213	26,232	92,941	89,590
Share of results of associates		7,657	16,287	26,151	55,625
Other operating income		1,860	2,558	6,352	8,737
<b>Non-interest income</b>		<b>191,708</b>	174,776	<b>654,741</b>	596,913
<b>Net operating income</b>		<b>661,046</b>	626,250	<b>2,257,671</b>	2,138,832
Staff expenses		122,402	114,940	418,039	392,555
Other administrative expenses		72,412	71,780	247,309	245,150
Depreciation of premises and equipment		15,215	14,539	51,964	49,655
Amortisation of intangible assets	14	5,062	5,837	17,288	19,935
<b>Operating expenses</b>		<b>215,091</b>	207,096	<b>734,600</b>	707,295
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>445,955</b>	419,154	<b>1,523,071</b>	1,431,537
Provision charge for credit losses	11	135,540	143,563	462,910	490,311
Impairment losses	12	11,155	5,183	38,098	17,701
<b>Operating profit before taxation</b>		<b>299,260</b>	270,408	<b>1,022,063</b>	923,525
Taxation	8	25,606	18,886	87,452	64,502
<b>Profit for the year</b>		<b>273,654</b>	251,522	<b>934,611</b>	859,023
Attributable to:					
Shareholders of the Bank		261,810	238,137	894,160	813,309
Non-controlling interests		11,844	13,385	40,451	45,714
		<b>273,654</b>	251,522	<b>934,611</b>	859,023
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	9	<b>56 fils</b>	51 fils	<b>19 Cents</b>	17 Cents

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 KD 000's	2013 KD 000's	2014 USD 000's	2013 USD 000's
<b>Profit for the year</b>		<b>273,654</b>	251,522	<b>934,611</b>	859,023
<b>Other comprehensive income</b>					
<i>Other comprehensive income reclassified to consolidated statement of Income:</i>					
Net gains on investments available for sale	7	<b>(26,547)</b>	(13,747)	<b>(90,666)</b>	(46,950)
Impairment losses on investments available for sale	12	<b>11,155</b>	5,183	<b>38,097</b>	17,702
<i>Other comprehensive income to be reclassified to consolidated statement of income in subsequent years:</i>					
Change in fair value of investments available for sale		<b>25,034</b>	13,996	<b>85,498</b>	47,801
Share of other comprehensive income of associates		<b>322</b>	2,404	<b>1,100</b>	8,210
Exchange differences on translation of foreign operations		<b>8,922</b>	(37,897)	<b>30,472</b>	(129,430)
<b>Other comprehensive income (loss) for the year included in equity</b>		<b>18,886</b>	(30,061)	<b>64,501</b>	(102,667)
<b>Total comprehensive income for the year</b>		<b>292,540</b>	221,461	<b>999,112</b>	756,356
Attributable to:					
Shareholders of the Bank		<b>279,135</b>	212,151	<b>953,330</b>	724,559
Non-controlling interests		<b>13,405</b>	9,310	<b>45,782</b>	31,797
		<b>292,540</b>	221,461	<b>999,112</b>	756,356

## Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 KD 000's	2013 KD 000's	2014 USD 000's	2013 USD 000's
<b>Assets</b>					
Cash and short term funds	10	<b>3,131,991</b>	2,412,059	<b>10,696,691</b>	8,237,906
Central Bank of Kuwait bonds	12	<b>534,688</b>	534,459	<b>1,826,120</b>	1,825,338
Kuwait Government treasury bonds	12	<b>344,529</b>	320,248	<b>1,176,670</b>	1,093,743
Deposits with banks		<b>2,050,515</b>	899,672	<b>7,003,125</b>	3,072,650
Loans and advances and Islamic financing to customers	11	<b>11,908,708</b>	10,695,317	<b>40,671,817</b>	36,527,722
Investment securities	12	<b>2,493,693</b>	2,350,175	<b>8,516,711</b>	8,026,554
Investment in associates	13	<b>119,398</b>	259,801	<b>407,780</b>	887,299
Land, premises and equipment		<b>203,414</b>	192,199	<b>694,720</b>	656,417
Goodwill and other intangible assets	14	<b>696,416</b>	700,085	<b>2,378,470</b>	2,391,001
Other assets	15	<b>162,371</b>	236,130	<b>554,546</b>	806,455
Investment in an associate held for sale	13	<b>138,408</b>	-	<b>472,705</b>	-
<b>Total assets</b>		<b>21,784,131</b>	18,600,145	<b>74,399,355</b>	63,525,085
<b>Liabilities</b>					
Due to banks and other financial institutions		<b>6,705,717</b>	4,944,865	<b>22,902,039</b>	16,888,200
Customer deposits		<b>11,259,736</b>	10,478,048	<b>38,455,383</b>	35,785,683
Certificates of deposit issued		<b>675,065</b>	240,984	<b>2,305,550</b>	823,033
Other liabilities	16	<b>273,073</b>	224,454	<b>932,626</b>	766,578
<b>Total liabilities</b>		<b>18,913,591</b>	15,888,351	<b>64,595,598</b>	54,263,494
<b>Equity</b>					
Share capital	17	<b>479,973</b>	457,117	<b>1,639,252</b>	1,561,192
Proposed bonus shares	18	<b>23,999</b>	22,856	<b>81,964</b>	78,060
Statutory reserve	17	<b>239,987</b>	228,559	<b>819,628</b>	780,598
Share premium account	17	<b>699,840</b>	699,840	<b>2,390,164</b>	2,390,164
Treasury shares	17	<b>(78,795)</b>	(80,302)	<b>(269,109)</b>	(274,256)
Treasury share reserve	17	<b>14,878</b>	16,224	<b>50,813</b>	55,410
Other reserves	17	<b>1,273,389</b>	1,164,550	<b>4,349,006</b>	3,977,288
<b>Equity attributable to shareholders of the Bank</b>		<b>2,653,271</b>	2,508,844	<b>9,061,718</b>	8,568,456
Non-controlling interests		<b>217,269</b>	202,950	<b>742,039</b>	693,135
<b>Total equity</b>		<b>2,870,540</b>	2,711,794	<b>9,803,757</b>	9,261,591
<b>Total liabilities and equity</b>		<b>21,784,131</b>	18,600,145	<b>74,399,355</b>	63,525,085

**Nasser Msaed Abdullah Al-Sayer**  
Chairman

**Isam J. Al-Sager**  
Group Chief Executive Officer

## Consolidated Statement of Cash Flows

For the year ended 31 December 2014

Notes	2014	2013	2014	2013
	KD 000's	KD 000's	USD 000's	USD 000's
<b>Operating activities</b>				
Profit for the year	<b>273,654</b>	251,522	<b>934,611</b>	859,023
Adjustments for :				
Net investment income	<b>(33,132)</b>	(18,724)	<b>(113,156)</b>	(63,948)
Share of results of associates	<b>(7,657)</b>	(16,287)	<b>(26,151)</b>	(55,625)
Depreciation of premises and equipment	<b>15,215</b>	14,539	<b>51,964</b>	49,655
Amortisation of intangible assets	<b>5,062</b>	5,837	<b>17,288</b>	19,935
Provision charge for credit losses	<b>135,540</b>	143,563	<b>462,910</b>	490,311
Impairment losses	<b>11,155</b>	5,183	<b>38,098</b>	17,701
Share based payment reserve	<b>1,480</b>	1,424	<b>5,055</b>	4,863
Taxation	<b>25,606</b>	18,886	<b>87,452</b>	64,502
Operating profit before changes in operating assets and liabilities	<b>426,923</b>	405,943	<b>1,458,071</b>	1,386,417
Changes in operating assets and liabilities:				
Central Bank of Kuwait bonds	<b>(229)</b>	79,693	<b>(782)</b>	272,175
Kuwait Government treasury bonds	<b>(24,281)</b>	35,963	<b>(82,927)</b>	122,824
Deposits with banks	<b>(1,150,843)</b>	303,746	<b>(3,930,475)</b>	1,037,384
Loans, advances and Islamic financing to customers	<b>(1,347,672)</b>	(978,656)	<b>(4,602,705)</b>	(3,342,404)
Other assets	<b>73,759</b>	(93,567)	<b>251,909</b>	(319,559)
Due to banks and other financial institutions	<b>1,760,852</b>	789,882	<b>6,013,839</b>	2,697,684
Customer deposits	<b>781,688</b>	970,294	<b>2,669,699</b>	3,313,846
Certificates of deposit issued	<b>434,081</b>	240,984	<b>1,482,517</b>	823,033
Other liabilities	<b>44,130</b>	43,647	<b>150,717</b>	149,068
Tax paid	<b>(22,513)</b>	(16,591)	<b>(76,888)</b>	(56,663)
Net cash from operating activities	<b>975,895</b>	1,781,338	<b>3,332,975</b>	6,083,805
<b>Investing activities</b>				
Purchase of investment securities	<b>(1,466,122)</b>	(1,547,486)	<b>(5,007,247)</b>	(5,285,130)
Proceeds from sale/redemption of investment securities	<b>1,350,475</b>	759,928	<b>4,612,278</b>	2,595,383
Dividend income	<b>3,839</b>	3,089	<b>13,111</b>	10,550
Acquisition of non-controlling interests	<b>(3,752)</b>	-	<b>(12,814)</b>	-
Additional investment in associates	-	(21,914)	-	(74,843)
Dividend from associates	<b>11,554</b>	10,601	<b>39,460</b>	36,206
Proceeds from sale of land, premises and equipment	<b>414</b>	590	<b>1,414</b>	2,015
Purchase of land, premises and equipment	<b>(26,844)</b>	(15,843)	<b>(91,680)</b>	(54,109)
Net cash used in investing activities	<b>(130,436)</b>	(811,035)	<b>(445,478)</b>	(2,769,928)
<b>Financing activities</b>				
Dividends paid	<b>(134,610)</b>	(128,248)	<b>(459,734)</b>	(438,006)
Proceeds from sale of treasury shares	<b>161</b>	197	<b>550</b>	673
Purchase of treasury shares	-	(3,061)	-	(10,454)
Net cash used in financing activities	<b>(134,449)</b>	(131,112)	<b>(459,184)</b>	(447,787)
<b>Increase in cash and short term funds</b>				
Exchange difference on translation of foreign operations	<b>8,922</b>	(37,897)	<b>30,472</b>	(129,430)
Cash and short term funds at the beginning of the year	<b>2,412,059</b>	1,610,765	<b>8,237,906</b>	5,501,246
<b>Cash and short term funds at the end of the year</b>	<b>3,131,991</b>	2,412,059	<b>10,696,691</b>	8,237,906

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Equity attributable to shareholders of the Bank							Total	Non -controlling interests	Total equity
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 17e)			
At 1 January 2013	435,349	21,768	217,675	699,840	(79,171)	17,957	1,113,097	<b>2,426,515</b>	189,480	<b>2,615,995</b>
Profit for the year	-	-	-	-	-	-	238,137	<b>238,137</b>	13,385	<b>251,522</b>
Other comprehensive loss	-	-	-	-	-	-	(25,986)	<b>(25,986)</b>	(4,075)	<b>(30,061)</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>212,151</b>	<b>212,151</b>	<b>9,310</b>	<b>221,461</b>
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)	-	-	<b>(3,061)</b>	-	<b>(3,061)</b>
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	<b>197</b>	-	<b>197</b>
Dividends paid	-	-	-	-	-	-	(128,248)	<b>(128,248)</b>	-	<b>(128,248)</b>
Proposed bonus shares (Note 18)	-	22,856	-	-	-	-	(22,856)	-	-	-
Share based payment	-	-	-	-	-	-	1,290	<b>1,290</b>	134	<b>1,424</b>
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	469	<b>469</b>
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(160)	<b>(160)</b>
Non-controlling interest in newly consolidated subsidiary	-	-	-	-	-	-	-	-	3,717	<b>3,717</b>
<b>At 31 December 2013</b>	<b>457,117</b>	<b>22,856</b>	<b>228,559</b>	<b>699,840</b>	<b>(80,302)</b>	<b>16,224</b>	<b>1,164,550</b>	<b>2,508,844</b>	<b>202,950</b>	<b>2,711,794</b>
Profit for the year	-	-	-	-	-	-	261,810	<b>261,810</b>	11,844	<b>273,654</b>
Other comprehensive income	-	-	-	-	-	-	17,325	<b>17,325</b>	1,561	<b>18,886</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>279,135</b>	<b>279,135</b>	<b>13,405</b>	<b>292,540</b>
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)	-	<b>161</b>	-	<b>161</b>
Dividends paid	-	-	-	-	-	-	(134,610)	<b>(134,610)</b>	-	<b>(134,610)</b>
Proposed bonus shares (Note 18)	-	23,999	-	-	-	-	(23,999)	-	-	-
Share based payment	-	-	-	-	-	-	1,230	<b>1,230</b>	109	<b>1,339</b>
Capital increase/redemption(net) in subsidiaries	-	-	-	-	-	-	-	-	2,989	<b>2,989</b>
Acquisition of non-controlling interest	-	-	-	-	-	-	(1,421)	<b>(1,421)</b>	(2,331)	<b>(3,752)</b>
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	<b>(68)</b>	147	<b>79</b>
<b>At 31 December 2014</b>	<b>479,973</b>	<b>23,999</b>	<b>239,987</b>	<b>699,840</b>	<b>(78,795)</b>	<b>14,878</b>	<b>1,273,389</b>	<b>2,653,271</b>	<b>217,269</b>	<b>2,870,540</b>

## 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.

### 2.3 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

## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.4 Foreign currencies (continued)

#### a. Translation of foreign currency transactions (continued)

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).

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.

#### 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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.

#### 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.



## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Fair value measurement (continued)

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

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

### 2.21 Repurchase and resale agreements

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

### 2.22 Offsetting of financial assets and liabilities

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

### 2.23 Derecognition of financial assets and financial liabilities

#### Financial assets

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

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

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

#### Financial liabilities

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

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

### 2.24 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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.

#### 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.

### 2.34 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.

# Notes to the Consolidated Financial Statements

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## 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

##### *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.

### 2.37 Basis of translation

The United States dollar amounts in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows represent supplementary information and have been translated at a rate of KD 0.29280 per USD which represents the mid-market rate at 31 December 2014.

## 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.

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## 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
<b>Profit (loss) for the year</b>	<b>134,686</b>	<b>107,667</b>	<b>13,838</b>	<b>28,505</b>	<b>(85,231)</b>	<b>74,189</b>	<b>273,654</b>
<b>Total Assets</b>	<b>3,568,847</b>	<b>4,857,286</b>	<b>62,147</b>	<b>2,647,930</b>	<b>2,511,125</b>	<b>8,136,796</b>	<b>21,784,131</b>
<b>Total Liabilities</b>	<b>3,834,766</b>	<b>2,044,509</b>	<b>8,288</b>	<b>2,346,828</b>	<b>2,271,658</b>	<b>8,407,542</b>	<b>18,913,591</b>
<b>Investment in associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,728</b>	<b>-</b>	<b>33,670</b>	<b>119,398</b>

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
<b>Profit (loss) for the year</b>	<b>114,603</b>	<b>102,225</b>	<b>13,323</b>	<b>12,720</b>	<b>(61,094)</b>	<b>69,745</b>	<b>251,522</b>
<b>Total Assets</b>	<b>3,390,320</b>	<b>4,503,234</b>	<b>62,505</b>	<b>2,191,986</b>	<b>2,275,486</b>	<b>6,176,614</b>	<b>18,600,145</b>
<b>Total Liabilities</b>	<b>3,547,023</b>	<b>1,947,352</b>	<b>7,881</b>	<b>1,922,499</b>	<b>2,227,508</b>	<b>6,236,088</b>	<b>15,888,351</b>
<b>Investment in associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,691</b>	<b>-</b>	<b>174,110</b>	<b>259,801</b>

## Geographic information:

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

	2014 KD 000's	2013 KD 000's
Net operating income		
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
	<b>661,046</b>	<b>626,250</b>

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

	2014 KD 000's	2013 KD 000's
Non-current assets		
Kuwait	920,417	935,607
Other Middle East and North Africa	36,185	36,497
Europe	934	1,284
Others	349	297
	<b>957,885</b>	<b>973,685</b>

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
	<b>513,518</b>	<b>489,328</b>

## 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
	<b>114,046</b>	<b>101,614</b>

## 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	<b>121,846</b>	<b>110,975</b>

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.

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## 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
	<b>33,132</b>	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
	<b>25,606</b>	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	<b>56 Fils</b>	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
	<b>3,131,991</b>	2,412,059

## 11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

	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
2014						
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)
						<b>11,908,708</b>

	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
2013						
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)
						<b>10,695,317</b>

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	<b>138,764</b>	145,371	<b>375,834</b>	290,082	<b>514,598</b>	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	<b>68,712</b>	82,846	<b>70,052</b>	62,525	<b>138,764</b>	145,371

# Notes to the Consolidated Financial Statements

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## 11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (Continued)

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

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
<b>Investment securities</b>				
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
<b>Central Bank of Kuwait bonds</b>	534,688	-	-	534,688
<b>Kuwait Government treasury bonds</b>	344,529	-	-	344,529
	991,024	2,315,035	66,851	3,372,910

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
<b>Investment securities</b>				
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
<b>Central Bank of Kuwait bonds</b>	534,459	-	-	534,459
<b>Kuwait Government treasury bonds</b>	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

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.

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### 13 INVESTMENT IN ASSOCIATES (Continued)

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:

	<b>Bank Syariah Muamalat Indonesia T.B.K.</b>	
	<b>KD 000's</b>	
<b>2014</b>		
Assets	<b>1,418,835</b>	
Liabilities	<b>1,332,605</b>	
Net assets	<b>86,230</b>	
Contingent liabilities	<b>26,071</b>	
Net operating income	<b>40,791</b>	
Results for the year	<b>(10,225)</b>	
Other comprehensive income for the year	<b>117</b>	
<b>2013</b>	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.

<b>Other associates</b>	<b>2014 KD 000's</b>	2013 KD 000's
Share of results for the year	<b>1,475</b>	27
Share of other comprehensive income (loss) for the year	<b>11</b>	(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

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

	Goodwill KD 000's	Intangible assets KD 000's	Total KD 000's
<b>Cost</b>			
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
<b>Accumulated amortisation</b>			
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
<b>Net book value</b>			
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.

#### 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.

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## 14 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Recoverable amount of goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. The goodwill in respect of Boubyan Bank K.S.C.P. is allocated to a single CGU which consists of identifiable net assets including intangible assets of Boubyan Bank K.S.C.P. A discount rate of 9.25% 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
	<b>162,371</b>	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
	<b>273,073</b>	224,454

## 17 SHARE CAPITAL AND RESERVES

### a) Share capital

	2014 KD 000's	2013 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.



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### 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 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)
<b>Total comprehensive income (loss)</b>	-	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
<b>At 31 December 2013</b>	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the year	-	261,810	-	-	-	-	<b>261,810</b>
Other comprehensive income	-	-	8,269	9,056	-	-	<b>17,325</b>
<b>Total comprehensive income</b>	-	<b>261,810</b>	<b>8,269</b>	<b>9,056</b>	-	-	<b>279,135</b>
Transfer to statutory reserve (Note 17b)	-	(11,428)	-	-	-	-	<b>(11,428)</b>
Dividends paid	-	-	-	-	-	(134,610)	<b>(134,610)</b>
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Proposed bonus shares (Note 18)	-	(23,999)	-	-	-	-	<b>(23,999)</b>
Proposed cash dividend 30 fils per share (Note 18)	-	(141,340)	-	-	-	141,340	-
Share based payment	-	-	-	-	1,230	-	<b>1,230</b>
Acquisition of non-controlling interest	-	(1,421)	-	-	-	-	<b>(1,421)</b>
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	<b>(68)</b>
<b>At 31 December 2014</b>	<b>117,058</b>	<b>1,017,780</b>	<b>(61,497)</b>	<b>43,875</b>	<b>14,833</b>	<b>141,340</b>	<b>1,273,389</b>

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.

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### 20 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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
	<b>1,430,160</b>	<b>826,998</b>	<b>121,653</b>	<b>2,378,811</b>
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

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
	<b>134,519</b>	<b>(1,317)</b>	<b>2,440</b>	<b>(14,877)</b>	<b>888</b>	<b>121,653</b>	<b>15,339</b>

	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.

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## 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	2013
	KD 000's	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	2013
	KD 000's	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	2013
	KD 000's	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.

### 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

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### 23 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

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.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties		2014	
	2014	2013	2014	2013	KD 000's	2013 KD 000's
<b>Board Members</b>						
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	-
<b>Executive Officers</b>						
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
<b>Associates</b>						
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.

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## 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	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

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
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:

Industry sector	2014 KD 000's	2013 KD 000's
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

#### 26.1.3 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 26 RISK MANAGEMENT (Continued)

### 26.1 CREDIT RISK (continued)

#### 26.1.3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (Continued)

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 or impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's		
<b>2014</b>				
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
	<b>17,698,200</b>	<b>2,513,026</b>	<b>249,579</b>	<b>20,460,805</b>
<b>2013</b>				
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

#### 26.1.4 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
<b>2014</b>						
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
	<b>20,885</b>	<b>98,756</b>	<b>42,282</b>	<b>87,656</b>	<b>63,167</b>	<b>186,412</b>

2013

	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
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).

### 26.2 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
<b>2014</b>				
<b>Assets</b>				
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
	<b>9,482,061</b>	<b>3,024,235</b>	<b>9,277,835</b>	<b>21,784,131</b>
<b>Liabilities and equity</b>				
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
	<b>15,106,928</b>	<b>3,547,808</b>	<b>3,129,395</b>	<b>21,784,131</b>

# Notes to the Consolidated Financial Statements

31 December 2014

## 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
<b>2013</b>				
<b>Assets</b>				
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
<b>Liabilities and equity</b>				
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
<b>2014</b>				
<b>Financial Liabilities</b>				
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
<b>Contingent liabilities and commitments</b>				
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
<b>Forward foreign exchange contracts settled on a gross basis</b>				
Contractual amounts payable	1,267,114	88,945	-	1,356,059
Contractual amounts receivable	1,270,636	88,817	-	1,359,453

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
<b>Financial Liabilities</b>				
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

<b>Contingent liabilities and commitments</b>				
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

<b>Forward foreign exchange contracts settled on a gross basis</b>				
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:

Currency	Movement in Basis points	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
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)

# Notes to the Consolidated Financial Statements

31 December 2014

## 26 RISK MANAGEMENT (Continued)

### 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.

Currency	% Change in currency rate	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
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.

Market indices	% Change in equity price	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
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%

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:



## Notes to the Consolidated Financial Statements

31 December 2014

### 27 CAPITAL (Continued)

	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.

## 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.

#### 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 Alban, Al Osaimi & Partners

8 January 2015  
Kuwait

#### Bader A. Al-Wazzan

Licence No. 62 A  
Deloitte & Touche  
Al-Wazzan & Co.

## Group Directory

### Head Office

Abdullah Al-Ahmed Street  
P.O.Box: 95, Safat  
13001 Kuwait  
Tel: +965 2242 2011  
Fax: +965 2243 1888

### Consumer Banking Group

**Retail Banking**  
Ext: 3034  
Fax: 2241 6738

#### Domestic Branches

Ext: 2592  
Fax: 2246 7929

#### Alternative Channels

Ext: 3393  
Fax: 2241 6738

#### Direct Sales

Ext: 5005  
Fax: 2259 5522

#### Consumer Lending

Ext: 3112  
Fax: 2224 6865

#### Marketing

Ext: 3036  
Fax: 2259 5679

#### Consumer Credit Collection

Ext: 2181  
Fax: 2259 5671

#### Private Banking Group

Ext: 2226  
Fax: 2241 8415 or  
2224 6619

### Corporate Banking Group

**Domestic Corporate Banking**  
Ext: 2116  
Fax: 2259 5640

#### Foreign Corporate, Oil and Trade Finance Group

Ext: 2307  
Fax: 2242 6813

#### Treasury Group

Ext: 3566  
Fax: 2241 9720

#### Credit Risk Management Group

Ext: 2417  
Fax: 2246 4162

#### Economic Research Group

Ext: 5364  
Fax: 2224 6973

#### Legal Affairs Group

Ext: 3091  
Fax: 2244 5098

#### Human Resources

Ext: 5162  
Fax: 2244 3250

### International Banking Group

**Regional Institutional Banking**  
Ext: 5328  
Fax: 2224 6977

Please refer to international network for a complete listing

#### Operations Group

Ext: 3060  
Fax: 2224 6666

#### Information Technology Group

Ext: 2653  
Fax: 2245 9233

#### Group Financial Control

Ext: 3009  
Fax: 2242 2730

#### International Legal Affairs

Ext: 2065  
Fax: 2243 6208

#### Executive Office

Ext: 2230  
Fax: 2246 2469

#### Public Relations

Ext: 3166  
Fax: 2259 5804

#### Advertising

Ext: 2665  
Fax: 2259 5805

#### Group Internal Audit & Quality Assurance

Ext: 5400  
Fax: 2243 3835

## Local Branches

### Head Office

Tel: 2242 2011  
Fax: 2259 5800

### Ahmadi

Tel: 1 801 801  
Fax: 2398 5643

### Ahmed Al-Jaber

Tel: 1 801 801  
Fax: 2259 3852

### Airport

Tel: 1 801 801  
Fax: 2259 3870

### Ali Sabah Al-Salem

Tel: 1 801 801  
Fax: 2328 7153

### Al Hamra Tower

Tel: 1 801 801  
Fax: 2259 3862

### Al Rihab

Tel: 1 801 801  
Fax: 2431 2537

### Al Tadamoun (Farwaniya)

Tel: 1 801801  
Fax: 2476 1290

### Andalus

Tel: 1 801 801  
Fax: 2499 1802

### Ardiya

Tel: 1 801 801  
Fax: 2488 3927

### Arraya 2

Tel: 1 801 801  
Fax: 2224 6605

### Avenues

Tel: 1 801 801  
Fax: 2259 3857

### Bayan

Tel: 1 801 801  
Fax: 2538 9382

### Camp Arifjan

Tel: 1 801801  
Fax: 2259 3965

### Cinema Al-Salmiya

Tel: 1 801 801  
Fax: 2224 6606

### Dahyat Abdullah Al-Salem

Tel: 1 801 801  
Fax: 2256 1854

### Daiyah

Tel: 1 801 801  
Fax: 2256 3820

### Dasma

Tel: 1 801 801  
Fax: 2252 6485

### Doha

Tel: 1 801 801  
Fax: 2487 4696

### Fahad Al-Salem

Tel: 1 801 801  
Fax: 2241 7642

### Fahaheel

Tel: 1 801 801  
Fax: 2392 4447

### Fahaheel Al Sahely

Tel: 1 801 801  
Fax: 2259 3839

### Faiha

Tel: 1 801 801  
Fax: 2254 6741

### Farwaniya

Tel: 1 801 801  
Fax: 2474 0013

### Fintas

Tel: 1 801 801  
Fax: 2390 3552

### Ghazali

Tel: 1 801 801  
Fax: 2483 4752

### Grand Avenues

Tel: 1 801 801  
Fax: 2259 3985

### Hadiya

Tel: 1 801 801  
Fax: 2394 3572

### Hawalli

Tel: 1 801 801  
Fax: 2261 2407

### Kheitan

Tel: 1 801 801  
Fax: 2472 4084

### Jabriya

Tel: 1 801 801  
Fax: 2533 1944

### Jahra

Tel: 1 801 801  
Fax: 2455 3121

### Jahra Commercial Branch

Tel: 1 801 801  
Fax: 2456 3259

### Jleeb Al-Shuyoukh

Tel: 1 801 801  
Fax: 2431 7449

### Kaifan

Tel: 1 801 801  
Fax: 2483 9016

### Kuwait Petroleum Corporation

Tel: 1 801 801  
Fax: 2224 6764

### Ministries Complex

Tel: 1 801 801  
Fax: 2245 2721

### Mishref

Tel: 1 801 801  
Fax: 2538 9832

### MTC Headquarters

Tel: 1 801 801  
Fax: 2481 3699

### Mubarak Al-Kabeer

Tel: 1 801 801  
Fax: 2541 6376

### Nuzha

Tel: 1 801 801  
Fax: 2255 0858

### Othman

Tel: 1 801 801  
Fax: 2265 6425

### Qadisiya

Tel: 1 801 801  
Fax: 2254 6738

### Qurain

Tel: 1 801 801  
Fax: 2544 0772

### Qurtuba

Tel: 1 801 801  
Fax: 2534 4780

### Ras Al-Salmiya

Tel: 1 801 801  
Fax: 2224 6629

### Rawdha

Tel: 1 801 801  
Fax: 2252 2358

### Riqqa

Tel: 1 801 801  
Fax: 2394 4147

### Rumaihiya

Tel: 1 801 801  
Fax: 2564 0980

### Sabah Al-Nasser

Tel: 1 801 801  
Fax: 2480 7577

### Sabah Al-Salem

Tel: 1 801 801  
Fax: 2551 7215

### Sabahiya

Tel: 1 801 801  
Fax: 2361 7013

### Sabhan

Tel: 1 801 801  
Fax: 2474 0074

### Salmiya

Tel: 1 801 801  
Fax: 2574 3681

### Salwa

Tel: 1 801 801  
Fax: 2566 8731

### Shamiah

Tel: 1 801 801  
Fax: 2484 6254

### Sharq

Tel: 1 801 801  
Fax: 2243 8348

### Shuwaikh

Tel: 1 801 801  
Fax: 2484 4126

### Shuwaikh Medical

Tel: 1 801 801  
Fax: 2492 0206

### Social Security (PIFSS)

Tel: 1 801 801  
Fax: 2247 2305

### Sour Street

Tel: 1 801 801  
Fax: 2243 0776

### South Surra

Tel: 1 801 801  
Fax: 2224 6867

### Surra

Tel: 1 801 801  
Fax: 2535 9686

### Watya

Tel: 1 801 801  
Fax: 2259 3889

### Yarmouk

Tel: 1 801 801  
Fax: 2532 2635

# International Branches

## Bahrain

National Bank of Kuwait SAK  
Bahrain Branch  
GB Corp Tower  
Block 346  
Road 4626, Building 1411  
P.O.Box 5290, Manama  
Kingdom of Bahrain  
Tel: +973 17 155 555  
Fax: +973 17 104 860

## Saudi Arabia

National Bank of Kuwait SAK  
Jeddah Branch  
Al-Khalidiah Distric  
Al-Mukmal Tower  
P.O.Box 15385  
Jeddah 21444, Saudi Arabia  
Tel: +966 2 603 6300  
Fax: +966 2 603 6318

## United Arab Emirates

National Bank of Kuwait SAK  
Dubai Branch  
Latifa Tower  
Sheikh Zayed Road  
next to Crown Plaza  
P.O.Box 55568  
Dubai, U.A.E  
Tel: +971 4 3161600  
Fax: +971 4 3888588

## Abu Dhabi

Sheikh Rashed Bin Saeed  
Al Maktoom Road  
(Old Airport Road 2nd Street)  
P.O.Box 113567  
Abu Dhabi, U.A.E  
Tel: +971 2 4199 555  
Fax: +971 2 2222 477

## Jordan

National Bank of Kuwait SAK  
Head Office  
Al Hajj Mohd Abdul Rahim Street  
Hijazi Plaza, Building # 70  
P.O.Box 941297  
Amman - 11194, Jordan  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

## Sweifieh Branch

Tel: +962 6 580 0444  
Fax: +962 6 580 0440

## Shmeisani Branch

Tel: +962 6 560 8800  
Fax: +962 6 560 8811

## Abdoun Branch

Tel: +962 6 590 2333  
Fax: +962 6 590 2320

## Lebanon

National Bank of Kuwait  
(Lebanon) SAL  
  
Sanayeh Head Office  
BAC Building, Justinien Street  
1107 2200 Beirut, Lebanon  
Tel: +961 1 759 700  
Fax: +961 1 747 866

## Ashrafieh Branch

Tel: +961 1 201 680  
Fax: +961 1 201 763

## Chiah Branch

Tel: +961 1 270 176  
Fax: +961 1 270 177

## Dora Branch

Tel: +961 1 899 530  
Fax: +961 1 898 903

## Jounieh Branch

Tel: +961 9 639 951  
Fax: +961 9 639 954

## Bhamdoun Branch

Tel: +961 5 260 100  
Fax: +961 5 260 102

## Iraq

Credit Bank of Iraq  
Street 9, Building 187  
Sadoun Street, District 102  
P.O.Box 3420  
Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+964 1 7188406/7171673  
Fax: +964 1 7170156

## Qatar

International Bank of Qatar  
QSC (Associated Company)  
Suhaim Bin Hamad Street,  
P.O.Box 2001  
Doha, Qatar  
Tel: +974 4447 8000  
Fax: +974 4447 3710

## Egypt

National Bank of Kuwait - Egypt  
Plot No. 155, City Center, First Sector  
5th Settlement, New Cairo, Egypt  
Tel: +202 26149300  
Fax: +202 26133978

## United Kingdom

National Bank of Kuwait  
(International) PLC

## Head Office

13 George street  
London, W1U 3QJ, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

## Portman Square Branch

7 Portman Square  
London, W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

## France

National Bank of Kuwait  
(International) PLC

## Paris Branch

90 Avenue des Champs-Elysees  
75008 Paris, France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

## Turkey

Turkish Bank

## Head Office

Valikonagi Avenue No. 1  
P.O.Box: 34371 Nisantasi  
Istanbul  
Tel: +90 212 373 6373  
Fax: +90 212 225 0353

## Singapore

National Bank of Kuwait SAK

## Singapore Branch

9 Raffles Place #24-02  
Republic Plaza  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

## China

National Bank of Kuwait SAK

Shanghai Representative Office  
Suite 1003, 10th floor  
Azia Center  
1233 Lujiazui Ring Road  
Shanghai 200120  
China  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

## United States of America

National Bank of Kuwait SAK

## New York Branch

299 Park Avenue, 17th Floor  
New York, NY 10171  
USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

## Kuwait

Watani Financial Brokerage Co.  
Abdullah Al-Ahmed Street  
Al-Naqi Building, Office 17  
P.O.Box 21350  
Safat 13074  
Kuwait  
Tel: +965 2259 5102  
Fax: +965 2224 6979

## NBK Capital

Arraya II  
Al Shuhada Street  
Block 6, Sharq  
P.O.Box 4950  
Safat 13050 Kuwait  
Tel: +965 2224 6901  
Fax: +965 2224 6904/5

## NBK Capital Limited – UAE

Precinct Building 3, Office 404  
Dubai International Finance Center  
Sheikh Zayed Road  
P.O.Box 506506, Dubai  
United Arab Emirates  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805