

**NATIONAL BANK OF KUWAIT GROUP**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**31 MARCH 2019 (UNAUDITED)**



Building a better  
working world

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## REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 31 March 2019, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

### **Report on Other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulation, as amended, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 2019 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 review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the three months period ended 31 March 2019 that might have had a material effect on the business of the Bank or on its financial position.

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ERNST & YOUNG  
AL AIBAN, AL OSAIMI & PARTNERS

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AL-WAZZAN & CO.

8 April 2019  
Kuwait

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2019 (Unaudited)

	Notes	Three months ended 31 March	
		2019 KD 000's	2018 KD 000's
Interest income		245,307	204,000
Interest expense		103,609	69,806
<b>Net interest income</b>		<b>141,698</b>	<b>134,194</b>
Murabaha and other Islamic financing income		49,579	42,458
Finance cost and Distribution to depositors		20,050	13,065
<b>Net income from Islamic financing</b>		<b>29,529</b>	<b>29,393</b>
<b>Net interest income and net income from Islamic financing</b>		<b>171,227</b>	<b>163,587</b>
Net fees and commissions		37,461	37,037
Net investment income		6,518	4,289
Net gains from dealing in foreign currencies		10,002	7,145
Other operating income		361	1,387
<b>Non-interest income</b>		<b>54,342</b>	<b>49,858</b>
<b>Net operating income</b>		<b>225,569</b>	<b>213,445</b>
Staff expenses		41,951	38,231
Other administrative expenses	5	22,318	21,864
Depreciation of premises and equipment	5	6,139	3,662
Amortisation of intangible assets		783	774
<b>Operating expenses</b>		<b>71,191</b>	<b>64,531</b>
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>154,378</b>	<b>148,914</b>
Provision charge for credit losses and impairment losses	3	31,406	42,332
<b>Operating profit before taxation</b>		<b>122,972</b>	<b>106,582</b>
Taxation	4	9,391	7,615
<b>Profit for the period</b>		<b>113,581</b>	<b>98,967</b>
<b>Attributable to:</b>			
Shareholders of the Bank		107,729	93,587
Non-controlling interests		5,852	5,380
		<b>113,581</b>	<b>98,967</b>
<b>Basic earnings per share attributable to shareholders of the Bank</b>	6	<b>17 fils</b>	<b>15 fils</b>

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2019 (Unaudited)

	Three months ended 31 March	
	2019 KD 000's	2018 KD 000's
<b>Profit for the period</b>	<b>113,581</b>	<b>98,967</b>
<b>Other comprehensive income</b>		
Investment in debt securities measured at FVOCI :		
Net change in fair value	15,820	(13,546)
Net transfer to interim condensed consolidated statement of income	202	(365)
	<b>16,022</b>	<b>(13,911)</b>
Share of other comprehensive income of associates	-	17
Exchange differences on translation of foreign operations	6,840	(4,025)
<b>Other comprehensive income (loss) for the period reclassifiable to interim condensed consolidated statement of income in subsequent periods</b>	<b>22,862</b>	<b>(17,919)</b>
Net gain (loss) on investments in equity instruments designated at FVOCI (not reclassifiable to interim condensed consolidated statement of income in subsequent periods)	365	(45)
<b>Other comprehensive income (loss) for the period</b>	<b>23,227</b>	<b>(17,964)</b>
<b>Total comprehensive income for the period</b>	<b>136,808</b>	<b>81,003</b>
<b>Attributable to:</b>		
Shareholders of the Bank	129,724	77,839
Non-controlling interests	7,084	3,164
	<b>136,808</b>	<b>81,003</b>

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2019 (Unaudited)

	Notes	31 March 2019 KD 000's	Audited 31 December 2018 KD 000's	31 March 2018 KD 000's
<b>Assets</b>				
Cash and short term funds		2,773,275	2,966,707	3,216,093
Central Bank of Kuwait bonds		817,278	809,871	719,024
Kuwait Government treasury bonds		845,330	872,042	1,015,349
Deposits with banks		1,759,466	2,364,242	2,583,614
Loans, advances and Islamic financing to customers		16,046,067	15,503,402	14,837,745
Investment securities		3,920,470	3,678,032	3,177,757
Investment in associates		34,334	31,425	59,255
Land, premises and equipment		409,682	362,801	333,381
Goodwill and other intangible assets		580,697	578,973	581,587
Other assets		228,329	260,445	260,437
<b>Total assets</b>		<b>27,414,928</b>	<b>27,427,940</b>	<b>26,784,242</b>
<b>Liabilities</b>				
Due to banks and other financial institutions		7,336,413	8,090,484	7,670,860
Customer deposits		14,677,039	14,388,836	14,277,549
Certificates of deposit issued		674,624	451,128	476,552
Global medium term notes		224,294	220,124	216,045
Subordinated Tier 2 bonds		124,776	124,768	124,742
Other liabilities	7c	753,695	451,290	573,479
<b>Total liabilities</b>		<b>23,790,841</b>	<b>23,726,630</b>	<b>23,339,227</b>
<b>Equity</b>				
Share capital	7	652,399	621,332	621,332
Proposed bonus shares	7	-	31,067	-
Statutory reserve		310,666	310,666	295,872
Share premium account		803,028	803,028	803,028
Treasury shares	7	(65,425)	(65,425)	(67,772)
Treasury shares reserve		14,010	14,010	13,991
Other reserves	7	1,363,878	1,448,579	1,246,245
Equity attributable to shareholders of the Bank		3,078,556	3,163,257	2,912,696
Perpetual Tier 1 Capital Securities		210,700	210,700	210,700
Non-controlling interests		334,831	327,353	321,619
<b>Total equity</b>		<b>3,624,087</b>	<b>3,701,310</b>	<b>3,445,015</b>
<b>Total liabilities and equity</b>		<b>27,414,928</b>	<b>27,427,940</b>	<b>26,784,242</b>



Ghassan Ahmed Saoud Al-Khaled  
Vice Chairman

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2019 (Unaudited)

	Notes	Three months ended 31 March	
		2019 KD 000's	2018 KD 000's
<b>Operating activities</b>			
Profit for the period		113,581	98,967
Adjustments for:			
Net investment income		(6,518)	(4,289)
Depreciation of premises and equipment		6,139	3,662
Amortisation of intangible assets		783	774
Provision charge for credit losses and impairment losses	3	31,406	42,332
Taxation	4	9,391	7,615
Operating profit before changes in operating assets and liabilities		<u>154,782</u>	<u>149,061</u>
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(7,407)	(63,433)
Kuwait Government treasury bonds		26,712	60,862
Deposits with banks		604,776	(95,426)
Loans, advances and Islamic financing to customers		(573,474)	(374,082)
Other assets		32,116	(10,441)
Due to banks and other financial institutions		(754,071)	201,557
Customer deposits		288,203	497,942
Certificates of deposit issued		223,496	(14,283)
Other liabilities		53,883	(1,932)
Tax paid		(5,914)	(3,923)
Net cash from operating activities		<u>43,102</u>	<u>345,902</u>
<b>Investing activities</b>			
Purchase of investment securities		(495,183)	(413,578)
Proceeds from sale/redemption of investment securities		273,465	547,754
Dividend income		2	150
Acquisition of non-controlling interests		-	(5,033)
Proceeds from sale of land, premises and equipment		147	744
Purchase of land, premises and equipment		(14,965)	(13,510)
Net cash (used in) from investing activities		<u>(236,534)</u>	<u>116,527</u>
<b>Financing activity</b>			
Proceeds from sale of treasury shares		-	10,024
Net cash from financing activity		<u>-</u>	<u>10,024</u>
<b>(Decrease) increase in cash and short term funds</b>		<b>(193,432)</b>	<b>472,453</b>
Cash and short term funds at 1 January		<u>2,966,707</u>	<u>2,743,640</u>
Cash and short term funds at 31 March		<u><u>2,773,275</u></u>	<u><u>3,216,093</u></u>

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2019 (Unaudited)

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)	Total	Perpetual Tier I Capital Securities	Non-controlling interests	
At 1 January 2019	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310
Profit for the period	-	-	-	-	-	-	107,729	107,729	-	5,852	113,581
Other comprehensive income	-	-	-	-	-	-	21,995	21,995	-	1,232	23,227
<b>Total comprehensive income</b>	-	-	-	-	-	-	129,724	129,724	-	7,084	136,808
Issue of bonus shares (Note 7c)	31,067	(31,067)	-	-	-	-	-	-	-	-	-
Transfer to dividends payable (Note 7c)	-	-	-	-	-	-	(214,344)	(214,344)	-	-	(214,344)
Other movements	-	-	-	-	-	-	(81)	(81)	-	394	313
<b>At 31 March 2019</b>	<b>652,399</b>	<b>-</b>	<b>310,666</b>	<b>803,028</b>	<b>(65,425)</b>	<b>14,010</b>	<b>1,363,878</b>	<b>3,078,556</b>	<b>210,700</b>	<b>334,831</b>	<b>3,624,087</b>
Balance at 31 December 2017	591,744	29,588	295,872	803,028	(77,799)	13,994	1,372,964	3,029,391	210,700	321,010	3,561,101
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	-	-	-	(27,085)	(27,085)	-	(112)	(27,197)
Restated balance as at 1 January 2018	591,744	29,588	295,872	803,028	(77,799)	13,994	1,345,879	3,002,306	210,700	320,898	3,533,904
Profit for the period	-	-	-	-	-	-	93,587	93,587	-	5,380	98,967
Other comprehensive loss	-	-	-	-	-	-	(15,748)	(15,748)	-	(2,216)	(17,964)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>77,839</b>	<b>77,839</b>	<b>-</b>	<b>3,164</b>	<b>81,003</b>
Issue of bonus shares (Note 7c)	29,588	(29,588)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	10,027	(3)	-	10,024	-	-	10,024
Transfer to dividends payable (Note 7c)	-	-	-	-	-	-	(174,883)	(174,883)	-	-	(174,883)
Acquisition of non-controlling interests	-	-	-	-	-	-	(2,590)	(2,590)	-	(2,443)	(5,033)
<b>At 31 March 2018</b>	<b>621,332</b>	<b>-</b>	<b>295,872</b>	<b>803,028</b>	<b>(67,772)</b>	<b>13,991</b>	<b>1,246,245</b>	<b>2,912,696</b>	<b>210,700</b>	<b>321,619</b>	<b>3,445,015</b>

The attached notes 1 to 12 form part of this interim condensed consolidated financial information.

31 March 2019 (Unaudited)

## 1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the three months period ended 31 March 2019 was authorised for issue in accordance with a resolution of the directors on 8 April 2019. The Bank is a public shareholding company incorporated in the State of 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.

## 2 Accounting policies

### Basis of preparation

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. The accounting policies used in the preparation of this interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018 except for the changes described below arising from the adoption of IFRS 16 'Leases' effective from 1 January 2019.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with the regulations issued by Central Bank of Kuwait (CBK) for financial services institutions in the State of Kuwait. The regulations require the expected credit loss on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with CBK guidelines or provisions as required by CBK instructions, with consequent impact on related disclosures. The regulations also require adoption of all other requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

### Changes in accounting policies

#### Adoption of IFRS 16 'Leases'

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.



# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

### 3 Provision charge for credit losses and impairment losses

	Three months ended 31 March	
	2019 KD 000's	2018 KD 000's
Provision charge for credit facilities – specific	26,791	41,093
Provision charge (reversal) for credit facilities – general	4,615	(1,153)
Other impairment losses	-	2,392
	<u>31,406</u>	<u>42,332</u>

### 4 Taxation

	Three months ended 31 March	
	2019 KD 000's	2018 KD 000's
National Labour Support Tax	2,699	2,335
Zakat	1,183	1,034
Contribution to Kuwait Foundation for the Advancement of Sciences	894	754
Overseas tax	4,615	3,492
	<u>9,391</u>	<u>7,615</u>

### 5 Impact on adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The Group presents right-of-use assets in 'land, premises and equipment' and lease liabilities in 'other liabilities' in the interim condensed consolidated statement of financial position. The carrying value of right-of-use assets and lease liabilities as at 31 March 2019 amounted to KD 35,919 thousand and KD 33,822 thousand respectively.

Depreciation charge for right-of-use assets for the period amounted to KD 2,282 thousand and is included in 'depreciation of premises and equipment' in the interim condensed consolidated statement of income. Rent expenses included in 'other administrative expenses' is lower to the extent of KD 2,228 thousand during the period as a result of applying IFRS 16.

### 6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	Three months ended 31 March	
	2019 KD 000's	2018 KD 000's
Profit attributable to shareholders of the Bank	<u>107,729</u>	<u>93,587</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>6,430,326</u>	<u>6,419,326</u>
Basic earnings per share	<u>17 fils</u>	<u>15 fils</u>

Earnings per share calculations for the period ended 31 March 2018 have been adjusted to take account of the bonus shares issued in 2019.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

### 7 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2018: 7,500,000,000 shares and 31 March 2018: 7,500,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises 6,523,985,887 shares (31 December 2018: 6,213,319,893 shares and 31 March 2018: 6,213,319,893 shares) of 100 fils each.

#### b) Treasury shares

	31 March 2019	Audited 31 December 2018	31 March 2018
Number of treasury shares	93,660,000	89,200,000	92,399,050
Treasury shares as a percentage of total shares in issue	1.4%	1.4%	1.5%
Cost of treasury shares (KD thousand)	65,425	65,425	67,772
Market value of treasury shares (KD thousand)	83,919	74,393	69,299
Weighted average market value per treasury share (fils)	886	784	761

#### c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 9 March 2019 approved 5% bonus shares (2018: 5%) and a cash dividend of 35 fils per share (2018: 30 fils per share) for the year ended 31 December 2018. The cash dividend payable amounting to KD 214,344 thousand is included in other liabilities as at 31 March 2019 and was paid subsequently. The bonus shares increased the number of issued and fully paid up shares by 310,665,994 (2018: 295,872,375) and share capital by KD 31,067 thousand (2018: KD 29,588 thousand).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

## 7 Shareholders' equity (continued)

d) Other reserves	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
At 1 January 2019	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579
Profit for the period	-	107,729	-	-	-	-	107,729
Other comprehensive income	-	-	6,587	15,408	-	-	21,995
<b>Total comprehensive income</b>	-	107,729	6,587	15,408	-	-	129,724
Transfer to dividends payable	-	-	-	-	-	(214,344)	(214,344)
Realised loss on equity investments at FVOCI	-	(36)	-	36	-	-	-
Other movements	-	(81)	-	-	-	-	(81)
<b>At 31 March 2019</b>	<b>117,058</b>	<b>1,422,794</b>	<b>(219,138)</b>	<b>28,755</b>	<b>14,409</b>	<b>-</b>	<b>1,363,878</b>
Balance at 31 December 2017	117,058	1,252,044	(234,491)	49,479	14,381	174,493	1,372,964
Impact of adopting IFRS 9 at 1 January 2018	-	(22,092)	-	(4,993)	-	-	(27,085)
Restated balance as at 1 January 2018	117,058	1,229,952	(234,491)	44,486	14,381	174,493	1,345,879
Profit for the period	-	93,587	-	-	-	-	93,587
Other comprehensive loss	-	-	(2,583)	(13,165)	-	-	(15,748)
<b>Total comprehensive income (loss)</b>	-	93,587	(2,583)	(13,165)	-	-	77,839
Dividend on treasury shares sold	-	(390)	-	-	-	390	-
Transfer to dividends payable	-	-	-	-	-	(174,883)	(174,883)
Realised loss on equity investments at FVOCI	-	(19)	-	19	-	-	-
Acquisition of non-controlling interests	-	(2,590)	-	-	-	-	(2,590)
<b>At 31 March 2018</b>	<b>117,058</b>	<b>1,320,540</b>	<b>(237,074)</b>	<b>31,340</b>	<b>14,381</b>	<b>-</b>	<b>1,246,245</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

**8 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 Kuwait.

The following table presents net operating income, profit for the period, total assets and total liabilities information in respect of the Group's business segments:

	31 March 2019						
	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
<i>Three months</i>							
Net operating income	69,545	39,920	8,014	38,505	16,209	53,376	225,569
Profit for the period	42,481	23,436	5,053	14,624	1,522	26,465	113,581
Total assets	4,666,623	5,197,716	51,781	4,553,885	3,171,886	9,773,037	27,414,928
Total liabilities	5,180,626	2,355,631	7,356	4,069,804	1,443,668	10,733,756	23,790,841

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

8 Segmental analysis (continued)

	31 March 2018						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	65,625	44,476	7,051	35,321	11,024	49,948	213,445
Profit (loss) for the period	39,233	18,123	4,150	12,653	(1,517)	26,325	98,967
Total assets	4,454,326	5,178,360	78,116	4,210,486	3,634,156	9,228,798	26,784,242
Total liabilities	4,709,728	2,687,736	33,292	3,766,000	1,880,198	10,262,273	23,339,227

9 Commitments and contingent liabilities

	31 March 2019 KD 000's	Audited 31 December 2018 KD 000's	31 March 2018 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	290,911	223,920	147,879
Letters of credit	380,875	456,359	476,234
Guarantees	3,818,990	3,707,656	3,760,707
	<u>4,490,776</u>	<u>4,387,935</u>	<u>4,384,820</u>

Irrevocable commitments to extend credit amount to KD 762,856 thousand (31 December 2018: KD 615,778 thousand, 31 March 2018: KD 719,806 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

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

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

The Group has commitments in respect of capital expenditure amounting to KD 31,792 thousand (31 December 2018: KD 36,399 thousand, 31 March 2018: KD 49,066 thousand).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

**10 Fair value of financial instruments**

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

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

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

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

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

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

<i>31 March 2019</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	2,415,386	453,879	14,000	2,883,265
Equities and other investments	48,291	77,883	85,359	211,533
	<u>2,463,677</u>	<u>531,762</u>	<u>99,359</u>	<u>3,094,798</u>
Derivative financial instruments (Note 11)	-	(18,799)	-	(18,799)
 <i>31 December 2018</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	2,168,487	460,505	14,000	2,642,992
Equities and other investments	44,979	57,463	83,787	186,229
	<u>2,213,466</u>	<u>517,968</u>	<u>97,787</u>	<u>2,829,221</u>
Derivative financial instruments (Note 11)	-	16,793	-	16,793
 <i>31 March 2018</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	1,896,538	198,127	14,375	2,109,040
Equities and other investments	52,258	96,194	69,441	217,893
	<u>1,948,796</u>	<u>294,321</u>	<u>83,816</u>	<u>2,326,933</u>
Derivative financial instruments (Note 11)	-	4,906	-	4,906

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

### 10 Fair value of financial instruments (continued)

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

	<i>At 1 January 2019 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2019 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,000	-	-	-	-	14,000	243
Equities and other investments	83,787	16	1,529	(347)	374	85,359	234
	<u>97,787</u>	<u>16</u>	<u>1,529</u>	<u>(347)</u>	<u>374</u>	<u>99,359</u>	<u>477</u>
	<i>At 1 January 2018 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2018 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,377	-	-	-	(2)	14,375	239
Equities and other investments	65,487	(46)	4,621	(455)	(166)	69,441	666
	<u>79,864</u>	<u>(46)</u>	<u>4,621</u>	<u>(455)</u>	<u>(168)</u>	<u>83,816</u>	<u>905</u>

### 11 Derivative financial instruments

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

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

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2019 (Unaudited)

**11 Derivative financial instruments (continued)**

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

**Interest rate swaps**

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

**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:

	31 March 2019			Audited 31 December 2018			31 March 2018		
	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	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	19,729	44,099	2,587,870	40,062	27,814	2,354,863	37,842	36,307	1,839,672
Interest rate swaps (others)	491	472	88,824	429	408	85,995	599	567	94,132
Forward foreign exchange contracts	8,648	3,096	2,128,660	15,912	11,388	2,771,024	15,833	12,494	3,485,659
	<u>28,868</u>	<u>47,667</u>	<u>4,805,354</u>	<u>56,403</u>	<u>39,610</u>	<u>5,211,882</u>	<u>54,274</u>	<u>49,368</u>	<u>5,419,463</u>



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

## INFORMATION

31 March 2019 (Unaudited)

**12 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 to 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		31 March 2019	31 December 2018 Audited	31 March 2018
	31 March 2019	31 December 2018	31 March 2019	31 December 2018			
<b>Board Members</b>							
Loans (secured)	3	3	17	15	90,731	115,322	114,849
Contingent liabilities	-	-	9	9	30,006	27,860	20,170
Credit cards	5	6	11	11	56	56	79
Deposits	9	9	60	59	32,415	34,207	33,090
Collateral against credit facilities	3	3	13	13	318,622	315,165	282,713
Interest and fee income					946	4,876	1,224
Interest expense					71	168	34
Purchase of equipment and other expenses					2	5	2
<b>Executive Officers</b>							
Loans	3	2	5	6	2,596	2,552	2,866
Contingent liabilities	3	4	-	-	2	2	2
Credit cards	12	13	4	4	63	87	44
Deposits	12	13	34	37	6,893	6,141	4,318
Interest and fee income					31	119	34
Interest expense					21	59	9
<b>Associates</b>							
Placements					29,530	7,286	7,303
Acceptances					13,993	-	4,496

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

31 March 2019 (Unaudited)

12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 31 March	
	2019 KD 000's	2018 KD 000's
Salaries and other short term benefits	2,440	1,893
Post-employment benefits	62	66
Share based compensation	321	202
	<u>2,823</u>	<u>2,161</u>