

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2017 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2017 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Interest income		192,454	167,864	546,316	486,274
Interest expense		59,587	48,883	161,430	138,014
Net interest income		132,867	118,981	384,886	348,260
Murabaha and other Islamic financing income		40,267	32,863	114,355	93,941
Finance cost and Distribution to depositors		12,084	9,043	32,978	24,329
Net income from Islamic financing		28,183	23,820	81,377	69,612
Net interest income and net income from Islamic financing		161,050	142,801	466,263	417,872
Net fees and commissions		35,000	31,763	102,321	98,587
Net investment income		5,705	395	15,754	4,445
Net gains from dealing in foreign currencies		9,131	8,418	23,942	24,023
Other operating income		195	276	1,614	855
Non-interest income		50,031	40,852	143,631	127,910
Net operating income		211,081	183,653	609,894	545,782
Staff expenses		38,613	35,528	112,876	107,145
Other administrative expenses		22,378	21,204	64,318	61,902
Depreciation of premises and equipment		3,599	4,132	11,474	12,280
Amortisation of intangible assets		773	1,133	2,346	3,465
Operating expenses		65,363	61,997	191,014	184,792
Operating profit before provision for credit losses and impairment losses		145,718	121,656	418,880	360,990
Provision charge for credit losses and impairment losses	3	60,500	41,912	146,348	108,535
Operating profit before taxation		85,218	79,744	272,532	252,455
Taxation	4	6,641	6,724	20,007	20,946
Profit for the period		78,577	73,020	252,525	231,509
Attributable to:					
Shareholders of the Bank		73,670	68,645	238,361	219,262
Non-controlling interests		4,907	4,375	14,164	12,247
		78,577	73,020	252,525	231,509
Basic earnings per share attributable to shareholders of the Bank	5	13 fils	12 fils	40 fils	38 fils

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2017 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Profit for the period	78,577	73,020	252,525	231,509
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	5,308	10,367	11,098	(3,522)
Net transfer to consolidated statement of income	(4,373)	(619)	(11,474)	5,204
	935	9,748	(376)	1,682
Share of other comprehensive income (loss) of associates	(23)	60	208	(262)
Exchange differences on translation of foreign operations	844	(118)	4,112	(31,418)
Other comprehensive income (loss) for the period reclassifiable to consolidated statement of income in subsequent periods	1,756	9,690	3,944	(29,998)
Total comprehensive income for the period	80,333	82,710	256,469	201,511
Attributable to:				
Shareholders of the Bank	75,690	77,943	242,397	189,252
Non-controlling interests	4,643	4,767	14,072	12,259
	80,333	82,710	256,469	201,511

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2017 (Unaudited)

		Audited	
	30 September	31 December	30 September
	2017	2016	2016
Notes	KD 000's	KD 000's	KD 000's
Assets			
Cash and short term funds	2,743,575	2,686,963	3,194,273
Central Bank of Kuwait bonds	607,651	748,889	718,108
Kuwait Government treasury bonds	1,106,203	493,101	420,866
Deposits with banks	2,314,376	2,407,915	2,182,624
Loans, advances and Islamic financing to customers	14,464,486	13,611,491	13,876,700
Investment securities	3,247,093	3,174,632	3,239,259
Investment in associates	65,053	73,644	83,474
Land, premises and equipment	301,642	255,086	249,689
Goodwill and other intangible assets	583,160	581,840	650,059
Other assets	191,336	170,508	178,917
Total assets	25,624,575	24,204,069	24,793,969
Liabilities			
Due to banks and other financial institutions	7,549,825	7,347,803	7,743,759
Customer deposits	13,348,385	12,608,092	12,764,470
Certificates of deposit issued	549,984	415,989	402,067
Global medium term notes	224,206	-	-
Subordinated Tier 2 bonds	124,726	124,700	124,692
Other liabilities	346,204	302,753	315,653
Total liabilities	22,143,330	20,799,337	21,350,641
Equity			
Share capital	7 591,744	563,566	563,566
Proposed bonus shares	7 -	28,178	-
Statutory reserve	281,783	281,783	251,986
Share premium account	803,028	803,028	803,028
Treasury shares	7 (77,799)	(77,799)	(77,799)
Treasury shares reserve	13,994	13,994	13,994
Other reserves	7 1,340,497	1,271,813	1,370,340
Equity attributable to shareholders of the Bank	2,953,247	2,884,563	2,925,115
Perpetual Tier 1 capital securities	210,700	210,700	210,700
Non-controlling interests	317,298	309,469	307,513
Total equity	3,481,245	3,404,732	3,443,328
Total liabilities and equity	25,624,575	24,204,069	24,793,969

Nasser Musaed Abdullah Al- Sayer
Chairman

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2017 (Unaudited)

	Notes	Nine months ended 30 September	
		2017 KD 000's	2016 KD 000's
Operating activities			
Profit for the period		252,525	231,509
Adjustments for:			
Net investment income		(15,754)	(4,445)
Depreciation of premises and equipment		11,474	12,280
Amortisation of intangible assets		2,346	3,465
Provision charge for credit losses and impairment losses	3	146,348	108,535
Share based payment reserve		255	426
Taxation	4	20,007	20,946
Operating profit before changes in operating assets and liabilities		417,201	372,716
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		141,238	85,822
Kuwait Government treasury bonds		(613,102)	(40,814)
Deposits with banks		93,539	(755,945)
Loans, advances and Islamic financing to customers		(988,230)	(416,687)
Other assets		(20,828)	(5,427)
Due to banks and other financial institutions		202,022	437,292
Customer deposits		740,293	705,267
Certificates of deposit issued		133,995	(253,190)
Other liabilities		44,506	46,964
Tax paid		(23,415)	(25,402)
Net cash from operating activities		127,219	150,596
Investing activities			
Purchase of investment securities		(1,321,086)	(1,519,601)
Proceeds from sale/redemption of investment securities		1,261,043	1,061,543
Dividend income		1,840	1,847
Dividend from associates		34	467
Proceeds from sale of land, premises and equipment		1,294	4,226
Purchase of land, premises and equipment		(59,324)	(39,694)
Net cash used in investing activities		(116,199)	(491,212)
Financing activities			
Net proceeds from issuance of Global medium term notes	6	225,892	-
Proceeds from issuance of rights shares		-	137,584
Net proceeds from issue of Perpetual Tier 1 sukuk by a subsidiary		-	74,738
Dividends paid		(166,184)	(148,443)
Interest paid on Perpetual Tier 1 capital securities		(6,146)	(6,066)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary		(2,570)	-
Dividend paid by a subsidiary to non-controlling interests		(5,400)	(4,295)
Net cash from financing activities		45,592	53,518
Increase/ (decrease) in cash and short term funds		56,612	(287,098)
Cash and short term funds at 1 January		2,686,963	3,481,371
Cash and short term funds at 30 September		2,743,575	3,194,273

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2017 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank							Total	Perpetual Tier 1 capital securities	Non-controlling interests	Total
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)				
At 1 January 2017	563,566	28,178	281,783	803,028	(77,799)	13,994	1,271,813	2,884,563	210,700	309,469	3,404,732
Profit for the period	-	-	-	-	-	-	238,361	238,361	-	14,164	252,525
Other comprehensive income	-	-	-	-	-	-	4,036	4,036	-	(92)	3,944
Total comprehensive income	-	-	-	-	-	-	242,397	242,397	-	14,072	256,469
Issue of bonus shares (Note 7)	28,178	(28,178)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(166,184)	(166,184)	-	-	(166,184)
Interest paid on perpetual Tier 1 capital securities	-	-	-	-	-	-	(6,146)	(6,146)	-	-	(6,146)
Share based payment in a subsidiary	-	-	-	-	-	-	149	149	-	106	255
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(5,400)	(5,400)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(1,501)	(1,501)	-	(1,069)	(2,570)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(31)	(31)	-	120	89
At 30 September 2017	591,744	-	281,783	803,028	(77,799)	13,994	1,340,497	2,953,247	210,700	317,298	3,481,245
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the period	-	-	-	-	-	-	219,262	219,262	-	12,247	231,509
Other comprehensive loss	-	-	-	-	-	-	(30,010)	(30,010)	-	12	(29,998)
Total comprehensive income	-	-	-	-	-	-	189,252	189,252	-	12,259	201,511
Issue of bonus shares (Note 7)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Issue of rights shares	34,396	-	-	103,188	-	-	-	137,584	-	-	137,584
Dividends paid (Note 7)	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Interest paid on perpetual Tier 1 capital securities	-	-	-	-	-	-	(6,066)	(6,066)	-	-	(6,066)
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	250	250	-	176	426
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Issue of Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	-	-	-	75,388	75,388
Transaction costs on issue of Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(379)	(379)	-	(271)	(650)
Other movements	-	-	-	-	-	-	(604)	(604)	-	(229)	(833)
At 30 September 2016	563,566	-	251,986	803,028	(77,799)	13,994	1,370,340	2,925,115	210,700	307,513	3,443,328

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

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2017 (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 nine months period ended 30 September 2017 were authorised for issue in accordance with a resolution of the directors on 5 October 2017. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank 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

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 these 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 2016.

The annual consolidated financial statements for the year ended 31 December 2016 were 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) except for the requirement of IAS 39, ‘Financial Instruments: Recognition and Measurement’, for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

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 2016. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Provision charge for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2017 KD 000’s	2016 KD 000’s	2017 KD 000’s	2016 KD 000’s
Provision charge for credit losses – specific	35,161	8,091	50,383	15,646
Provision charge for credit losses – general	23,499	28,379	84,630	73,054
Total provision charge for credit losses	58,660	36,470	135,013	88,700
Impairment losses	1,840	5,442	11,335	19,835
	60,500	41,912	146,348	108,535

4 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2017 KD 000’s	2016 KD 000’s	2017 KD 000’s	2016 KD 000’s
National labour support tax	1,834	1,601	5,975	5,337
Zakat	823	759	2,631	2,405
Contribution to Kuwait Foundation for the Advancement of Sciences	697	439	2,144	1,755
Overseas tax	3,287	3,925	9,257	11,449
	6,641	6,724	20,007	20,946

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2017 (Unaudited)

5 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 30 September		Nine months ended 30 September	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Profit attributable to shareholders of the Bank	73,670	68,645	238,361	219,262
Less: Interest paid on Perpetual Tier 1 capital securities	-	-	(6,146)	(6,066)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	-	-	(1,501)	-
	73,670	68,645	230,714	213,196
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	5,816,429	5,816,429	5,816,429	5,684,799
Basic earnings per share	13 fils	12 fils	40 fils	38 fils

Earnings per share calculations for the period ended 30 September 2016 have been adjusted to take account of the bonus shares issued in 2017.

6 Global medium term notes

During the period, the Bank established a USD 3 billion Global medium term note programme ("GMTN programme"). On 30 May 2017, the Bank issued senior unsecured notes amounting to USD 750,000 thousand due in May 2022 under the GMTN programme through a wholly owned special purpose vehicle. These notes were issued at 99.491 per cent of nominal value and carry a fixed interest rate of 2.75% per annum payable semi-annually in arrears.

7 Shareholders' equity

a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2016: 6,000,000,000 shares and 30 September 2016: 6,000,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises of 5,917,447,518 shares (31 December 2016: 5,635,664,303 shares and 30 September 2016: 5,635,664,303 shares) of 100 fils each.

b) Treasury shares

	30 September 2017	Audited 31 December 2016	30 September 2016
Number of treasury shares	101,018,981	96,208,554	96,208,554
Treasury shares as a percentage of total shares in issue	1.7%	1.7%	1.7%
Cost of treasury shares (KD thousand)	77,799	77,799	77,799
Market value of treasury shares (KD thousand)	76,875	62,536	56,763
Weighted average market value per treasury share (fils)	708	643	652

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 11 March 2017 approved 5% bonus shares (2015: 5%) and a cash dividend of 30 fils per share (2015: 30 fils per share) for the year ended 31 December 2016. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 281,783,215 (2015: 251,985,884) and share capital by KD 28,178 thousand (2015: KD 25,198 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 September 2017 (Unaudited)

7 Shareholders' equity (continued)

d) Other reserves

							KD 000's
	<i>General reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Cumulative changes in fair values</i>	<i>Share based payment reserve</i>	<i>Proposed cash dividend</i>	<i>Total other reserves</i>
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	1,271,813
Profit for the period	-	238,361	-	-	-	-	238,361
Other comprehensive income (loss)	-	-	4,521	(485)	-	-	4,036
Total comprehensive income (loss)	-	238,361	4,521	(485)	-	-	242,397
Dividends paid	-	-	-	-	-	(166,184)	(166,184)
Interest paid on perpetual Tier 1 capital securities	-	(6,146)	-	-	-	-	(6,146)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	(1,501)	-	-	-	-	(1,501)
Share based payment in a subsidiary	-	-	-	-	149	-	149
Change in effective holding in a subsidiary	-	(31)	-	-	-	-	(31)
At 30 September 2017	117,058	1,393,876	(233,394)	48,636	14,321	-	1,340,497
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	219,262	-	-	-	-	219,262
Other comprehensive (loss) income	-	-	(31,717)	1,707	-	-	(30,010)
Total comprehensive income (loss)	-	219,262	(31,717)	1,707	-	-	189,252
Dividends paid	-	-	-	-	-	(148,443)	(148,443)
Interest paid on perpetual Tier 1 capital securities	-	(6,066)	-	-	-	-	(6,066)
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	250	-	250
Transaction costs on issue of Perpetual Tier 1 sukuk by a subsidiary	-	(379)	-	-	-	-	(379)
Other movements	-	(604)	-	-	-	-	(604)
At 30 September 2016	117,058	1,319,434	(111,466)	31,179	14,135	-	1,370,340

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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:

	30 September 2017						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Nine months</i>							
Net operating income	<u>193,062</u>	<u>143,441</u>	<u>19,938</u>	<u>94,386</u>	<u>24,361</u>	<u>134,706</u>	<u>609,894</u>
Profit (loss) for the period	<u>110,078</u>	<u>99,976</u>	<u>11,168</u>	<u>34,001</u>	<u>(75,496)</u>	<u>72,798</u>	<u>252,525</u>
Total assets	<u>4,361,619</u>	<u>5,520,642</u>	<u>70,545</u>	<u>3,829,996</u>	<u>3,029,641</u>	<u>8,812,132</u>	<u>25,624,575</u>
Total liabilities	<u>4,549,986</u>	<u>2,307,082</u>	<u>21,145</u>	<u>3,387,489</u>	<u>2,011,519</u>	<u>9,866,109</u>	<u>22,143,330</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2017 (Unaudited)

8 Segmental analysis (continued)

	30 September 2016						
	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>Nine months</i>							
Net operating income	180,957	126,654	16,880	79,020	9,048	133,223	545,782
Profit (loss) for the period	105,089	100,689	8,675	29,671	(87,973)	75,358	231,509
Total assets	4,163,514	5,480,854	61,960	3,471,101	2,571,621	9,044,919	24,793,969
Total liabilities	4,107,524	2,168,262	7,392	3,056,393	2,353,117	9,657,953	21,350,641

9 Commitments and contingent liabilities

	30 September 2017 KD 000's	Audited 31 December 2016 KD 000's	30 September 2016 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	195,373	115,668	76,975
Letters of credit	326,754	319,459	245,805
Guarantees	3,603,661	3,638,537	3,670,341
	4,125,788	4,073,664	3,993,121

Irrevocable commitments to extend credit amount to KD 712,984 thousand (31 December 2016: KD 786,888 thousand, 30 September 2016: KD 1,158,783 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 64,948 thousand (31 December 2016: KD 105,426 thousand, 30 September 2016: KD 83,088 thousand).

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30 September 2017 (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>30 September 2017</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	2,005,943	1,002,691	14,378	3,023,012
Equities and other investments	71,110	82,876	66,858	220,844
	<u>2,077,053</u>	<u>1,085,567</u>	<u>81,236</u>	<u>3,243,856</u>
Derivative financial instruments (Note 11)	-	(29,775)	-	(29,775)
<i>31 December 2016</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	1,753,246	939,419	14,765	2,707,430
Equities and other investments	91,489	132,410	71,782	295,681
	<u>1,844,735</u>	<u>1,071,829</u>	<u>86,547</u>	<u>3,003,111</u>
Derivative financial instruments (Note 11)	-	2,633	-	2,633
<i>30 September 2016</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	1,837,485	1,051,331	16,360	2,905,176
Equities and other investments	119,087	65,686	77,331	262,104
	<u>1,956,572</u>	<u>1,117,017</u>	<u>93,691</u>	<u>3,167,280</u>
Derivative financial instruments (Note 11)	-	(43,414)	-	(43,414)

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10 Fair value of financial instruments (continued)

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

	<i>At 1 January 2017 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 30 September 2017 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,765	-	-	(378)	(9)	14,378	698
Equities and other investments	71,782	(758)	1,576	(5,336)	(406)	66,858	4,101
	<u>86,547</u>	<u>(758)</u>	<u>1,576</u>	<u>(5,714)</u>	<u>(415)</u>	<u>81,236</u>	<u>4,799</u>

	<i>At 1 January 2016 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 30 September 2016 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	31,686	-	14,000	(29,304)	(22)	16,360	753
Equities and other investments	79,904	(8,032)	8,403	(2,619)	(325)	77,331	2,275
	<u>111,590</u>	<u>(8,032)</u>	<u>22,403</u>	<u>(31,923)</u>	<u>(347)</u>	<u>93,691</u>	<u>3,028</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.

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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:

	30 September 2017			Audited 31 December 2016			30 September 2016		
	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)	13,237	40,989	1,947,707	25,992	30,117	1,376,449	3,091	55,724	1,184,416
Interest rate swaps (others)	1,031	977	90,324	1,450	1,404	84,811	2,242	2,193	86,133
Forward foreign exchange contracts	11,281	13,358	1,883,706	17,741	11,029	2,094,223	12,212	3,042	2,079,242
	25,549	55,324	3,921,737	45,183	42,550	3,555,483	17,545	60,959	3,349,791

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2017 is negative KD 27,752 thousand (31 December 2016: negative KD 4,125 thousand, 30 September 2016: negative KD 52,633 thousand). Gain on the hedged fixed income financial assets amounted to KD 53,069 thousand (31 December 2016: KD 26,805 thousand, 30 September 2016: KD 61,069 thousand).

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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 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			30 September 2017	31 December 2016 Audited KD 000's	30 September 2016 KD 000's
	30 September 2017	31 December 2016	30 September 2016	30 September 2017	31 December 2016	30 September 2016			
Board Members									
Loans (secured)	3	4	4	17	16	12	165,725	155,598	203,586
Contingent liabilities	-	-	1	12	13	12	25,389	20,981	19,421
Credit cards	8	6	5	12	10	9	67	99	73
Deposits	9	8	9	68	67	72	32,398	32,090	34,299
Collateral against credit facilities	3	4	4	15	14	14	324,909	288,898	303,837
Interest and fee income							4,460	7,586	6,146
Interest expense							68	43	34
Purchase of equipment and other expenses							20	23	18
Executive Officers									
Loans	4	3	3	3	3	3	2,591	2,702	2,654
Contingent liabilities	4	5	5	-	-	-	2	2	2
Credit cards	12	12	13	4	2	3	75	38	67
Deposits	13	13	13	34	33	30	4,644	2,910	3,427
Interest and fee income							74	90	66
Interest expense							-	-	2

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12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Salaries and other short term benefits	1,925	1,745	5,679	5,172
Post-employment benefits	161	119	444	412
Share based compensation	234	123	549	345
	<u>2,320</u>	<u>1,987</u>	<u>6,672</u>	<u>5,929</u>