

**NATIONAL BANK OF KUWAIT GROUP**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**31 MARCH 2014 (UNAUDITED)**

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2014 (Unaudited)

	Notes	Three months ended 31 March	
		2014 KD 000's	2013 KD 000's
Interest income		124,725	119,397
Interest expense		26,851	26,206
<b>Net interest income</b>		<b>97,874</b>	<b>93,191</b>
Murabaha and other Islamic financing income		19,504	17,377
Distribution to depositors and Murabaha costs		3,233	2,441
<b>Net income from Islamic financing</b>		<b>16,271</b>	<b>14,936</b>
<b>Net interest income and net income from Islamic financing</b>		<b>114,145</b>	<b>108,127</b>
Net fees and commissions		29,192	25,441
Net investment income		3,540	2,574
Net gains from dealing in foreign currencies		6,087	6,579
Share of results of associates		4,700	3,914
Other operating income		783	619
<b>Non-interest income</b>		<b>44,302</b>	<b>39,127</b>
<b>Net operating income</b>		<b>158,447</b>	<b>147,254</b>
Staff expenses		29,008	27,944
Other administrative expenses		16,688	16,076
Depreciation of premises and equipment		3,746	3,712
Amortisation of intangible assets		1,272	897
<b>Operating expenses</b>		<b>50,714</b>	<b>48,629</b>
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>107,733</b>	<b>98,625</b>
Provision charge for credit losses – specific		3,243	9,843
Provision charge for credit losses – general		12,365	809
Impairment losses for investment securities		91	-
<b>Operating profit before taxation</b>		<b>92,034</b>	<b>87,973</b>
Taxation	3	6,066	5,514
<b>Profit for the period</b>		<b>85,968</b>	<b>82,459</b>
<b>Attributable to:</b>			
Shareholders of the Bank		83,935	81,328
Non-controlling interests		2,033	1,131
		<b>85,968</b>	<b>82,459</b>
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	4	<b>18 fils</b>	<b>17 fils</b>

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

31 March 2014 (Unaudited)

	Three months ended	
	31 March	
	2014	2013
	KD 000's	KD 000's
<b>Profit for the period</b>	<b>85,968</b>	82,459
<b>Other comprehensive income transferred or reclassifiable to consolidated statement of income in subsequent periods</b>		
Net gains on investments available for sale transferred to consolidated statement of income	(1,991)	(2,563)
Impairment losses on investments available for sale transferred to consolidated statement of income	91	-
Change in fair value of investments available for sale	17,023	5,121
Share of other comprehensive (loss) income of associates	(503)	14
Exchange differences on translation of foreign operations	1,305	(14,534)
<b>Other comprehensive income (loss) for the period included in equity</b>	<b>15,925</b>	(11,962)
<b>Total comprehensive income for the period</b>	<b>101,893</b>	70,497
<b>Attributable to:</b>		
Shareholders of the Bank	98,800	69,194
Non-controlling interests	3,093	1,303
	<b>101,893</b>	70,497

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

31 March 2014 (Unaudited)

		Audited	(Restated)
	31 March	31 December	31 March
	2014	2013	2013
	Notes	KD 000's	KD 000's
<b>Assets</b>			
Cash and short term funds		3,539,345	2,412,059
Central Bank of Kuwait bonds		711,049	534,459
Kuwait Government treasury bonds		340,620	320,248
Deposits with banks		1,197,229	899,672
Loans, advances and Islamic financing to customers		10,954,391	10,695,317
Investment securities		2,432,362	2,350,175
Investment in associates		255,525	259,801
Land, premises and equipment		193,202	192,199
Goodwill and other intangible assets		698,389	700,085
Other assets		178,741	236,130
<b>Total assets</b>		<b>20,500,853</b>	<b>18,600,145</b>
<b>Liabilities</b>			
Due to banks and other financial institutions		6,085,982	4,944,865
Customer deposits		11,120,701	10,478,048
Certificates of deposit issued		354,795	240,984
Other liabilities		256,160	224,454
<b>Total liabilities</b>		<b>17,817,638</b>	<b>15,888,351</b>
<b>Equity</b>			
Share capital	5	479,973	457,117
Proposed bonus shares	5	-	22,856
Statutory reserve		228,559	228,559
Share premium account		699,840	699,840
Treasury shares	5	(78,795)	(80,302)
Treasury shares reserve		14,878	16,224
Other reserves	5	1,128,864	1,164,550
Equity attributable to shareholders of the Bank		2,473,319	2,508,844
Non-controlling interests		209,896	202,950
<b>Total equity</b>		<b>2,683,215</b>	<b>2,711,794</b>
<b>Total liabilities and equity</b>		<b>20,500,853</b>	<b>18,600,145</b>

Nasser Musaed Abdullah Al-Sayer  
Vice Chairman

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2014 (Unaudited)

	Notes	Three months ended 31 March	
		2014 KD 000's	2013 KD 000's
<b>Operating activities</b>			
Profit for the period		85,968	82,459
Adjustments for:			
Net investment income		(3,540)	(2,574)
Share of results of associates		(4,700)	(3,914)
Depreciation of premises and equipment		3,746	3,712
Amortisation of intangible assets		1,272	897
Provision charge for credit losses		15,608	10,652
Impairment losses for investment securities		91	-
Share based payment reserve		316	257
Taxation	3	6,066	5,514
Operating profit before changes in operating assets and liabilities		104,827	97,003
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(176,590)	27,370
Kuwait Government treasury bonds		(20,372)	4,532
Deposits with banks		(297,557)	(325,750)
Loans, advances and Islamic financing to customers		(275,700)	(141,635)
Other assets		57,389	(6,818)
Due to banks and other financial institutions		1,141,117	1,323,209
Customer deposits		642,653	343,544
Certificates of deposit issued		113,811	-
Other liabilities		35,691	28,181
Tax paid		(8,000)	(2,701)
Net cash from operating activities		1,317,269	1,346,935
<b>Investing activities</b>			
Purchase of investment securities		(213,143)	(535,507)
Proceeds from sale/redemption of investment securities		148,077	169,675
Dividend income		1,451	1,154
Dividend from associates		11,525	298
Proceeds from sale of land, premises and equipment		451	139
Purchase of land, premises and equipment		(5,200)	(1,980)
Net cash used in investing activities		(56,839)	(366,221)
<b>Financing activities</b>			
Dividends paid	5	(134,610)	(128,248)
Proceeds from sale of treasury shares		161	197
Net cash used in financing activities		(134,449)	(128,051)
<b>Increase in cash and short term funds</b>		<b>1,125,981</b>	<b>852,663</b>
Exchange difference on translation of foreign operations		1,305	(14,534)
Cash and short term funds at 1 January		2,412,059	1,610,765
<b>Cash and short term funds at 31 March</b>		<b>3,539,345</b>	<b>2,448,894</b>

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

31 March 2014 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank							Total	Non-controlling interests	Total
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 5)			
At 1 January 2013 (restated)	435,349	21,768	217,675	699,840	(79,171)	17,957	1,113,097	2,426,515	189,480	2,615,995
Profit for the period	-	-	-	-	-	-	81,328	81,328	1,131	82,459
Other comprehensive (loss) income	-	-	-	-	-	-	(12,134)	(12,134)	172	(11,962)
Total comprehensive income	-	-	-	-	-	-	69,194	69,194	1,303	70,497
Issue of bonus shares (Note 5)	21,768	(21,768)	-	-	-	-	-	-	-	-
Dividends paid (Note 5)	-	-	-	-	-	-	(128,248)	(128,248)	-	(128,248)
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	197	-	197
Share based payment	-	-	-	-	-	-	227	227	30	257
At 31 March 2013	<u>457,117</u>	<u>-</u>	<u>217,675</u>	<u>699,840</u>	<u>(77,241)</u>	<u>16,224</u>	<u>1,054,270</u>	<u>2,367,885</u>	<u>190,813</u>	<u>2,558,698</u>
At 1 January 2014	<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 period	-	-	-	-	-	-	83,935	83,935	2,033	85,968
Other comprehensive income	-	-	-	-	-	-	14,865	14,865	1,060	15,925
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>98,800</b>	<b>98,800</b>	<b>3,093</b>	<b>101,893</b>
Issue of bonus shares (Note 5)	<b>22,856</b>	<b>(22,856)</b>	-	-	-	-	-	-	-	-
Dividends paid (Note 5)	-	-	-	-	-	-	<b>(134,610)</b>	<b>(134,610)</b>	-	<b>(134,610)</b>
Sale of treasury shares	-	-	-	-	1,507	<b>(1,346)</b>	-	161	-	161
Share based payment	-	-	-	-	-	-	192	192	(17)	175
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	3,723	3,723
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	147	79
At 31 March 2014	<u><b>479,973</b></u>	<u><b>-</b></u>	<u><b>228,559</b></u>	<u><b>699,840</b></u>	<u><b>(78,795)</b></u>	<u><b>14,878</b></u>	<u><b>1,128,864</b></u>	<u><b>2,473,319</b></u>	<u><b>209,896</b></u>	<u><b>2,683,215</b></u>

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

31 March 2014 (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 2014 were authorised for issue in accordance with a resolution of the directors on 7 April 2014. 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 2013. The comparative numbers in the interim condensed consolidated statement of financial position presented for 31 March 2013 have been restated to reflect the impact of finalisation of the purchase price allocation exercise of Boubyan Bank K.S.C.P. For more details, refer note 26 of the Group’s annual consolidated financial statements for the year ended 31 December 2013.

The annual consolidated financial statements for the year ended 31 December 2013 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 IAS 39, ‘Financial Instruments: Recognition and Measurement’, requirement 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 provided specifically.

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 2013. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

### 3 Taxation

	Three months ended 31 March	
	2014	2013
	KD 000’s	KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	696	669
National labour support tax	1,637	1,602
Zakat	633	614
Taxation on overseas branches and subsidiaries	3,100	2,629
	<u>6,066</u>	<u>5,514</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

### 4 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period 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 issue of employee share options does not result in any change from the reported basic earnings per share.

	Three months ended 31 March	
	2014	2013
	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	<u>83,935</u>	<u>81,328</u>
Weighted average number of shares outstanding during the period, net of treasury shares (thousands)	<u>4,710,790</u>	<u>4,712,827</u>
Basic and diluted earnings per share	<u>18 fils</u>	<u>17 fils</u>

Earnings per share calculations for the period ended 31 March 2013 have been adjusted to take account of the bonus shares issued in 2014.

### 5 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 4,799,731,131 shares (31 December 2013: 4,571,172,506 shares and 31 March 2013: 4,571,172,506 shares) of 100 fils each.

b) Treasury shares

	31 March 2014	Audited 31 December 2013	31 March 2013
Number of treasury shares	88,381,436	85,782,085	82,493,620
Treasury shares as a percentage of total shares in issue	1.8%	1.9%	1.8%
Cost of treasury shares (KD thousand)	78,795	80,302	77,241
Market value of treasury shares (KD thousand)	87,498	76,346	74,244

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 9 March 2014 approved 5% bonus shares (2012: 5%) and a cash dividend of 30 fils per share (2012: 30 fils per share) for the year ended 31 December 2013. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 228,558,625 (2012: 217,674,881) and share capital by KD 22,856 thousand (2012: KD 21,768 thousand).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

31 March 2014 (Unaudited)

**5 Shareholders' equity (continued)**

## d) Other reserves

	<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 2013	117,058	864,498	(35,522)	26,561	12,313	128,189	1,113,097
Profit for the period	-	81,328	-	-	-	-	81,328
Other comprehensive (loss) income	-	-	(14,613)	2,479	-	-	(12,134)
Total comprehensive income (loss)	-	81,328	(14,613)	2,479	-	-	69,194
Dividends paid	-	-	-	-	-	(128,248)	(128,248)
Dividends on treasury shares sold	-	(59)	-	-	-	59	-
Share based payment	-	-	-	-	227	-	227
At 31 March 2013	117,058	945,767	(50,135)	29,040	12,540	-	1,054,270
<b>At 1 January 2014</b>	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the year	-	83,935	-	-	-	-	<b>83,935</b>
Other comprehensive income	-	-	321	14,544	-	-	<b>14,865</b>
<b>Total comprehensive income</b>	-	<b>83,935</b>	<b>321</b>	<b>14,544</b>	-	-	<b>98,800</b>
Dividends paid	-	-	-	-	-	(134,610)	<b>(134,610)</b>
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Share based payment	-	-	-	-	192	-	<b>192</b>
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	<b>(68)</b>
<b>At 31 March 2014</b>	<b>117,058</b>	<b>1,018,093</b>	<b>(69,445)</b>	<b>49,363</b>	<b>13,795</b>	-	<b>1,128,864</b>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

### 6 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 and total assets information in respect of the Group's business segments:

	31 March 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
<i>Three months</i>							
Net operating income	<u>51,993</u>	<u>39,031</u>	<u>5,465</u>	<u>18,714</u>	<u>5,970</u>	<u>37,274</u>	<u>158,447</u>
Profit (loss) for the period	<u>37,606</u>	<u>34,135</u>	<u>2,679</u>	<u>5,690</u>	<u>(14,260)</u>	<u>20,118</u>	<u>85,968</u>
Total assets	<u>3,366,692</u>	<u>4,637,097</u>	<u>63,841</u>	<u>2,305,407</u>	<u>2,394,211</u>	<u>7,733,605</u>	<u>20,500,853</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

### 6 Segmental analysis (continued)

	31 March 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
<i>Three months</i>							
Net operating income	48,694	37,927	4,711	15,336	8,004	32,582	147,254
Profit (loss) for the period	31,025	30,545	2,016	3,071	(1,623)	17,425	82,459
Total assets (restated)	3,197,598	4,338,010	61,858	1,907,553	2,668,002	5,949,856	18,122,877

### 7 Commitments and contingent liabilities

	Audited		
	31 March 2014 KD 000's	31 December 2013 KD 000's	31 March 2013 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	107,781	46,699	59,839
Letters of credit	290,832	299,048	319,876
Guarantees	2,466,239	2,237,844	2,067,493
	<b>2,864,852</b>	<b>2,583,591</b>	<b>2,447,208</b>

Irrevocable commitments to extend credit amount to KD 487,285 thousand (31 December 2013: KD 418,723 thousand, 31 March 2013: KD 340,787 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.

### 8 Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

The fair value of investment securities, quoted in an active market (stock exchanges and actively traded funds) amounts to KD 1,280,162 thousand (31 December 2013: KD 1,252,251 thousand, 31 March 2013: KD 875,501 thousand) for debt securities and KD 182,747 thousand (31 December 2013: KD 189,571 thousand, 31 March 2013: KD 171,527 thousand) for equities and other investments. Investment securities, which are tradable over the counter and / or are valued by using a significant input of observable market data amounts to KD 709,378 thousand (31 December 2013: KD 654,967 thousand, 31 March 2013: KD 641,804 thousand) for debt securities and KD 41,520 thousand (31 December 2013: KD 39,018 thousand, 31 March 2013: KD 80,694 thousand) for equities and other investments. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

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

Investment securities, for which a significant input of the valuation is not based on observable market data amounts to KD 44,113 thousand (31 December 2013: KD 44,900 thousand, 31 March 2013: KD 44,929 thousand) for debt securities and KD 89,531 thousand (31 December 2013: KD 89,619 thousand, 31 March 2013: KD 95,878 thousand) for equities and other investments. The table below analyses the movement in these investment securities and the income (interest, dividend and realised gain) generated for the periods.

	<i>At 1 January 2014 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 2014 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	44,900	-	-	(880)	93	44,113	503
Equities and other investments	89,619	1,165	-	(1,073)	(180)	89,531	1,171
	<u>134,519</u>	<u>1,165</u>	<u>-</u>	<u>(1,953)</u>	<u>(87)</u>	<u>133,644</u>	<u>1,674</u>

  

	<i>At 1 January 2013 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 2013 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	45,530	-	-	(192)	(409)	44,929	499
Equities and other investments	95,502	405	495	(1,137)	613	95,878	1,566
	<u>141,032</u>	<u>405</u>	<u>495</u>	<u>(1,329)</u>	<u>204</u>	<u>140,807</u>	<u>2,065</u>

The positive and negative fair values of interest rate swaps and forward foreign exchange contracts, which are valued using significant inputs of observable market data, amount to KD 10,706 thousand (31 December 2013: KD 15,837 thousand, 31 March 2013: KD 9,027 thousand) and KD 12,627 thousand (31 December 2013: KD 13,799 thousand, 31 March 2013: KD 17,906 thousand) respectively (refer note 9 for details).

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

### 9 Interest rate swaps and forward foreign exchange contracts

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

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 qualify as effective hedging instruments are shown as interest rate swaps held as fair value hedges. Forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of interest rate swaps and forward foreign exchange contracts are covered by entering into similar transactions with counter parties or by other risk mitigating transactions.

The fair value of interest rate swaps and forward foreign exchange contracts included in the financial records, together with their notional amounts is summarised as follows:

	31 March 2014			Audited 31 December 2013			31 March 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	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	5,992	10,879	390,169	6,861	10,953	398,057	389	14,163	247,381
Forward foreign exchange contracts	4,714	1,748	1,395,891	8,976	2,846	1,027,343	8,638	3,743	910,464
	<b>10,706</b>	<b>12,627</b>	<b>1,786,060</b>	<b>15,837</b>	<b>13,799</b>	<b>1,425,400</b>	<b>9,027</b>	<b>17,906</b>	<b>1,157,845</b>

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2014 is negative KD 4,887 thousand (31 December 2013: negative KD 4,092 thousand, 31 March 2013: negative KD 13,774 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 10,118 thousand (31 December 2013: KD 6,250 thousand, 31 March 2013: KD 14,867 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

31 March 2014 (Unaudited)

**10 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			31 March 2014	31 December 2013 Audited KD 000's	31 March 2013 KD 000's
	31 March 2014	31 December 2013	31 March 2013	31 March 2014	31 December 2013	31 March 2013			
<b>Board Members</b>									
Loans (secured)	4	4	3	17	16	18	186,368	197,421	195,295
Contingent liabilities	2	1	1	13	13	12	25,239	27,975	18,928
Credit cards	8	7	7	10	10	13	64	60	111
Deposits	9	9	9	64	59	61	29,849	24,128	27,392
Collateral against credit facilities	4	4	4	15	16	16	372,516	349,213	366,370
Interest and fee income							1,593	7,009	1,669
Interest expense							17	83	23
<b>Executive Officers</b>									
Loans	5	5	9	2	2	1	1,030	1,388	1,495
Contingent liabilities	3	4	2	-	-	-	2	7	6
Credit cards	12	12	5	2	2	1	28	35	34
Deposits	13	14	16	18	23	20	1,551	1,704	2,096
Interest and fee income							13	53	2
Interest expense							-	1	14
<b>Associates</b>									
Placements							40,092	78,160	184,656
Acceptances							153	745	1,589

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

31 March 2014 (Unaudited)

**11 Key management compensation**

Details of compensation to key management personnel are as follows:

	<b>Three months ended 31 March</b>	
	<b>2014</b>	<b>2013</b>
	<b>KD 000's</b>	<b>KD 000's</b>
Salaries and other short term benefits	<b>747</b>	791
Post-employment benefits	<b>66</b>	179
Share based compensation	<b>64</b>	114
	<b>877</b>	1,084

**12 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 March 2014, the Bank derecognised a portion of the loans purchased by the Fund amounting to KD 115,448 thousand and transferred these loans to a memorandum account (off-balance sheet) as the Bank continues to manage them on behalf of the Fund.