

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2017 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2017 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Interest income		185,631	162,688	353,862	318,410
Interest expense		55,222	47,075	101,843	89,131
Net interest income		130,409	115,613	252,019	229,279
Murabaha and other Islamic financing income		38,151	31,171	74,088	61,078
Finance cost and Distribution to depositors		10,891	8,336	20,894	15,286
Net income from Islamic financing		27,260	22,835	53,194	45,792
Net interest income and net income from Islamic financing		157,669	138,448	305,213	275,071
Net fees and commissions		33,678	33,414	67,321	66,824
Net investment income		4,916	2,583	10,049	4,050
Net gains from dealing in foreign currencies		6,781	8,206	14,811	15,605
Other operating income		388	240	1,419	579
Non-interest income		45,763	44,443	93,600	87,058
Net operating income		203,432	182,891	398,813	362,129
Staff expenses		37,740	37,712	74,263	71,617
Other administrative expenses		21,751	21,199	41,940	40,698
Depreciation of premises and equipment		3,868	4,099	7,875	8,148
Amortisation of intangible assets		781	1,134	1,573	2,332
Operating expenses		64,140	64,144	125,651	122,795
Operating profit before provision for credit losses and impairment losses		139,292	118,747	273,162	239,334
Provision charge for credit losses and impairment losses	3	48,111	35,706	85,848	66,623
Operating profit before taxation		91,181	83,041	187,314	172,711
Taxation	4	6,951	7,256	13,366	14,222
Profit for the period		84,230	75,785	173,948	158,489
Attributable to:					
Shareholders of the Bank		79,336	71,682	164,691	150,617
Non-controlling interests		4,894	4,103	9,257	7,872
		84,230	75,785	173,948	158,489
Basic earnings per share attributable to shareholders of the Bank	5	12 fils	12 fils	27 fils	26 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 June 2017 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Profit for the period	84,230	75,785	173,948	158,489
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	(12,167)	(3,424)	5,790	(13,889)
Net transfer to consolidated statement of income	(3,709)	1,576	(7,101)	5,823
	(15,876)	(1,848)	(1,311)	(8,066)
Share of other comprehensive income (loss) of associates	81	(302)	231	(322)
Exchange differences on translation of foreign operations	(5,530)	(707)	3,268	(31,300)
Other comprehensive (loss) income for the period reclassifiable to consolidated statement of income in subsequent periods	(21,325)	(2,857)	2,188	(39,688)
Total comprehensive income for the period	62,905	72,928	176,136	118,801
Attributable to:				
Shareholders of the Bank	58,152	69,271	166,707	111,309
Non-controlling interests	4,753	3,657	9,429	7,492
	62,905	72,928	176,136	118,801

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 June 2017 (Unaudited)

		Audited	
	30 June	31 December	30 June
	2017	2016	2016
Notes	KD 000's	KD 000's	KD 000's
Assets			
Cash and short term funds	2,635,984	2,686,963	2,938,320
Central Bank of Kuwait bonds	769,534	748,889	752,944
Kuwait Government treasury bonds	843,887	493,101	435,891
Deposits with banks	2,458,429	2,407,915	2,031,959
Loans, advances and Islamic financing to customers	14,326,618	13,611,491	13,702,903
Investment securities	3,299,455	3,174,632	3,009,387
Investment in associates	66,478	73,644	84,505
Land, premises and equipment	270,421	255,086	243,114
Goodwill and other intangible assets	582,647	581,840	656,975
Other assets	199,070	170,508	211,311
Total assets	25,452,523	24,204,069	24,067,309
Liabilities			
Due to banks and other financial institutions	7,168,481	7,347,803	7,025,317
Customer deposits	13,568,665	12,608,092	12,559,944
Certificates of deposit issued	636,989	415,989	714,458
Global medium term notes	225,504	-	-
Subordinated Tier 2 bonds	124,717	124,700	124,684
Other liabilities	327,327	302,753	281,540
Total liabilities	22,051,683	20,799,337	20,705,943
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 1,264,765	1,271,813	1,292,901
Equity attributable to shareholders of the Bank	2,877,515	2,884,563	2,847,676
Perpetual Tier 1 capital securities	210,700	210,700	210,700
Non-controlling interests	312,625	309,469	302,990
Total equity	3,400,840	3,404,732	3,361,366
Total liabilities and equity	25,452,523	24,204,069	24,067,309

Ghassan Ahmed Saoud Al Khalid
Vice 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 June 2017 (Unaudited)

	Notes	Six months ended 30 June	
		2017 KD 000's	2016 KD 000's
Operating activities			
Profit for the period		173,948	158,489
Adjustments for:			
Net investment income		(10,049)	(4,050)
Depreciation of premises and equipment		7,875	8,148
Amortisation of intangible assets		1,573	2,332
Provision charge for credit losses and impairment losses	3	85,848	66,623
Share based payment reserve		183	288
Taxation	4	13,366	14,222
Operating profit before changes in operating assets and liabilities		272,744	246,052
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(20,645)	50,986
Kuwait Government treasury bonds		(350,786)	(55,839)
Deposits with banks		(50,514)	(605,280)
Loans, advances and Islamic financing to customers		(791,549)	(205,870)
Other assets		(28,562)	(37,821)
Due to banks and other financial institutions		(179,322)	(281,150)
Customer deposits		960,573	500,741
Certificates of deposit issued		221,000	59,201
Other liabilities		31,705	14,374
Tax paid		(21,478)	(20,518)
Net cash from (used in) operating activities		43,166	(335,124)
Investing activities			
Purchase of investment securities		(925,369)	(1,028,482)
Proceeds from sale/redemption of investment securities		807,133	789,749
Dividend income		1,458	1,593
Dividend from associates		35	456
Proceeds from sale of land, premises and equipment		907	3,382
Purchase of land, premises and equipment		(24,117)	(28,143)
Net cash used in investing activities		(139,953)	(261,445)
Financing activities			
Net proceeds from issuance of Global medium term notes	6	226,108	-
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		45,808	53,518
Decrease in cash and short term funds		(50,979)	(543,051)
Cash and short term funds at 1 January		2,686,963	3,481,371
Cash and short term funds at 30 June		2,635,984	2,938,320

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 June 2017 (Unaudited)

	KD 000's										
	Equity attributable to shareholders of the Bank										
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury Shares reserve	Other reserves (Note 7)	Total	Perpetual Tier 1 capital securities	Non-controlling interests	Total
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	-	-	-	-	-	-	164,691	164,691	-	9,257	173,948
Other comprehensive income	-	-	-	-	-	-	2,016	2,016	-	172	2,188
Total comprehensive income	-	-	-	-	-	-	166,707	166,707	-	9,429	176,136
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	-	-	-	-	-	-	107	107	-	76	183
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 June 2017	591,744	-	281,783	803,028	(77,799)	13,994	1,264,765	2,877,515	210,700	312,625	3,400,840
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	-	-	-	-	-	-	150,617	150,617	-	7,872	158,489
Other comprehensive loss	-	-	-	-	-	-	(39,308)	(39,308)	-	(380)	(39,688)
Total comprehensive income	-	-	-	-	-	-	111,309	111,309	-	7,492	118,801
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	-	-	-	-	-	-	168	168	-	120	288
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(18)	(18)	-	71	53
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)
At 30 June 2016	563,566	-	251,986	803,028	(77,799)	13,994	1,292,901	2,847,676	210,700	302,990	3,361,366

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 June 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 six months period ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 6 July 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 June		Six months ended 30 June	
	2017	2016	2017	2016
	KD 000’s	KD 000’s	KD 000’s	KD 000’s
Provision charge for credit losses – specific	3,268	1,603	15,222	7,555
Provision charge for credit losses – general	37,960	30,703	61,131	44,675
Impairment losses	6,883	3,400	9,495	14,393
	48,111	35,706	85,848	66,623

4 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	KD 000’s	KD 000’s	KD 000’s	KD 000’s
National labour support tax	2,010	1,758	4,141	3,736
Zakat	880	791	1,808	1,646
Contribution to Kuwait Foundation for the Advancement of Sciences	769	654	1,447	1,316
Overseas tax	3,292	4,053	5,970	7,524
	6,951	7,256	13,366	14,222

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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 June		Six months ended 30 June	
	2017 KD 000's	2016 KD 000's	2017 KD 000's	2016 KD 000's
Profit attributable to shareholders of the Bank	79,336	71,682	164,691	150,617
Less: Interest paid on Perpetual Tier 1 capital securities	(6,146)	(6,066)	(6,146)	(6,066)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	(1,501)	-	(1,501)	-
	<u>71,689</u>	<u>65,616</u>	<u>157,044</u>	<u>144,551</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>5,816,429</u>	<u>5,636,061</u>	<u>5,816,429</u>	<u>5,618,262</u>
Basic earnings per share	<u>12 fils</u>	<u>12 fils</u>	<u>27 fils</u>	<u>26 fils</u>

Earnings per share calculations for the period ended 30 June 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 June 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 June 2016: 5,635,664,303 shares) of 100 fils each.

b) Treasury shares

	30 June 2017	Audited 31 December 2016	30 June 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)	68,188	62,536	56,763
Weighted average market value per treasury share (fils)	698	643	679

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 June 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	-	164,691	-	-	-	-	164,691
Other comprehensive income (loss)	-	-	3,394	(1,378)	-	-	2,016
Total comprehensive income (loss)	-	164,691	3,394	(1,378)	-	-	166,707
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	-	-	-	-	107	-	107
Change in effective holding in a subsidiary	-	(31)	-	-	-	-	(31)
At 30 June 2017	117,058	1,320,206	(234,521)	47,743	14,279	-	1,264,765
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	150,617	-	-	-	-	150,617
Other comprehensive loss	-	-	(31,096)	(8,212)	-	-	(39,308)
Total comprehensive income (loss)	-	150,617	(31,096)	(8,212)	-	-	111,309
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	-	-	-	-	168	-	168
Change in effective holding in a subsidiary	-	(18)	-	-	-	-	(18)
Transaction costs on issue of Perpetual Tier 1 sukuk by a subsidiary	-	(379)	-	-	-	-	(379)
At 30 June 2016	117,058	1,251,375	(110,845)	21,260	14,053	-	1,292,901

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 June 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>Six months</i>							
Net operating income	<u>125,375</u>	<u>96,079</u>	<u>13,419</u>	<u>61,707</u>	<u>13,933</u>	<u>88,300</u>	<u>398,813</u>
Profit (loss) for the Period	<u>69,171</u>	<u>79,689</u>	<u>7,947</u>	<u>22,257</u>	<u>(52,930)</u>	<u>47,814</u>	<u>173,948</u>
Total assets	<u>4,296,347</u>	<u>5,620,229</u>	<u>44,556</u>	<u>3,733,757</u>	<u>3,028,582</u>	<u>8,729,052</u>	<u>25,452,523</u>
Total liabilities	<u>4,611,668</u>	<u>2,408,342</u>	<u>4,502</u>	<u>3,302,946</u>	<u>1,925,230</u>	<u>9,798,995</u>	<u>22,051,683</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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8 Segmental analysis (continued)

	30 June 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>Six months</i>							
Net operating income	118,585	85,299	11,111	53,006	7,129	86,999	362,129
Profit (loss) for the period	68,175	67,476	5,594	18,930	(49,890)	48,204	158,489
Total assets	4,122,720	5,372,232	56,947	3,407,763	2,469,247	8,638,400	24,067,309
Total liabilities	4,234,035	2,075,623	10,383	3,003,528	2,305,984	9,076,390	20,705,943

9 Commitments and contingent liabilities

	30 June 2017 KD 000's	Audited 31 December 2016 KD 000's	30 June 2016 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	236,762	115,668	95,129
Letters of credit	359,140	319,459	289,055
Guarantees	3,542,865	3,638,537	3,619,850
	4,138,767	4,073,664	4,004,034

Irrevocable commitments to extend credit amount to KD 659,633 thousand (31 December 2016: KD 786,888 thousand, 30 June 2016: KD 1,240,071 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 94,310 thousand (31 December 2016: KD 105,426 thousand, 30 June 2016: KD 87,101 thousand).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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 June 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	2,052,757	1,003,812	14,758	3,071,327
Equities and other investments	77,347	75,359	70,125	222,831
	<u>2,130,104</u>	<u>1,079,171</u>	<u>84,883</u>	<u>3,294,158</u>
Derivative financial instruments (Note 11)	-	(31,852)	-	(31,852)
 <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 June 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	1,705,578	948,071	16,665	2,670,314
Equities and other investments	121,490	79,718	74,189	275,397
	<u>1,827,068</u>	<u>1,027,789</u>	<u>90,854</u>	<u>2,945,711</u>
Derivative financial instruments (Note 11)	-	(46,000)	-	(46,000)

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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 June 2017 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,765	-	-	-	(7)	14,758	453
Equities and other investments	71,782	510	1,488	(3,309)	(346)	70,125	1,852
	<u>86,547</u>	<u>510</u>	<u>1,488</u>	<u>(3,309)</u>	<u>(353)</u>	<u>84,883</u>	<u>2,305</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 June 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	(29,003)	(18)	16,665	514
Equities and other investments	79,904	(6,302)	2,566	(1,729)	(250)	74,189	2,104
	<u>111,590</u>	<u>(6,302)</u>	<u>16,566</u>	<u>(30,732)</u>	<u>(268)</u>	<u>90,854</u>	<u>2,618</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 June 2017			Audited 31 December 2016			30 June 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)	14,641	37,769	1,933,433	25,992	30,117	1,376,449	3,367	63,026	1,101,104
Interest rate swaps (others)	1,360	1,318	86,552	1,450	1,404	84,811	2,233	2,164	89,452
Forward foreign exchange contracts	8,761	17,527	1,785,470	17,741	11,029	2,094,223	22,202	8,612	1,643,137
	24,762	56,614	3,805,455	45,183	42,550	3,555,483	27,802	73,802	2,833,693

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2017 is negative KD 23,128 thousand (31 December 2016: negative KD 4,125 thousand, 30 June 2016: negative KD 59,659 thousand). Gain on the hedged fixed income financial assets amounted to KD 44,887 thousand (31 December 2016: KD 26,805 thousand, 30 June 2016: KD 55,510 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 June 2017	31 December 2016 Audited KD 000's	30 June 2016 KD 000's
	30 June 2017	31 December 2016	30 June 2016	30 June 2017	31 December 2016	30 June 2016			
Board Members									
Loans (secured)	3	4	4	16	16	10	157,916	155,598	213,897
Contingent liabilities	-	-	1	13	13	12	26,873	20,981	20,078
Credit cards	6	6	6	11	10	2	68	99	9
Deposits	9	8	9	70	67	65	34,707	32,090	27,398
Collateral against credit facilities	3	4	4	15	14	13	302,109	288,898	297,207
Interest and fee income							2,893	7,586	4,458
Interest expense							34	43	32
Purchase of equipment and other expenses							12	23	10
Executive Officers									
Loans	3	3	3	3	3	2	2,572	2,702	2,130
Contingent liabilities	4	5	5	-	-	-	2	2	2
Credit cards	13	12	10	4	2	2	78	38	20
Deposits	13	13	12	33	33	24	3,575	2,910	3,393
Interest and fee income							47	90	42
Interest expense							-	-	-

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12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	KD 000's	KD 000's	KD 000's	KD 000's
Salaries and other short term benefits	1,900	1,740	3,754	3,427
Post-employment benefits	201	218	283	293
Share based compensation	173	109	315	222
	<u>2,274</u>	<u>2,067</u>	<u>4,352</u>	<u>3,942</u>