

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2015 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2015 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Interest income		144,567	123,307	281,560	248,032
Interest expense		34,235	27,581	64,782	54,432
Net interest income		110,332	95,726	216,778	193,600
Murabaha and other Islamic financing income		25,900	21,441	50,240	40,945
Distribution to depositors and Murabaha costs		5,345	3,904	10,863	7,137
Net income from Islamic financing		20,555	17,537	39,377	33,808
Net interest income and net income from Islamic financing		130,887	113,263	256,155	227,408
Net fees and commissions		34,566	30,895	65,314	60,087
Net investment income	5	3,304	18,099	33,538	21,639
Net gains from dealing in foreign currencies		8,403	6,982	15,850	13,069
Share of results of associates		(155)	3,028	92	7,728
Other operating income		1,577	961	2,166	1,744
Non-interest income		47,695	59,965	116,960	104,267
Net operating income		178,582	173,228	373,115	331,675
Staff expenses		36,403	31,843	67,306	60,851
Other administrative expenses		18,518	18,743	36,089	35,431
Depreciation of premises and equipment		3,724	3,764	7,530	7,510
Amortisation of intangible assets		1,256	1,256	2,506	2,528
Operating expenses		59,901	55,606	113,431	106,320
Operating profit before provision for credit losses and impairment losses		118,681	117,622	259,684	225,355
Provision charge for credit losses - specific		9,847	23,174	18,565	26,417
Provision charge for credit losses - general		26,689	23,459	39,537	35,824
Impairment losses		4,672	1,724	11,995	1,815
Operating profit before taxation		77,473	69,265	189,587	161,299
Taxation	3	7,026	5,519	19,593	11,585
Profit for the period		70,447	63,746	169,994	149,714
Attributable to:					
Shareholders of the Bank		66,875	60,853	163,393	144,788
Non-controlling interests		3,572	2,893	6,601	4,926
		70,447	63,746	169,994	149,714
Basic and diluted earnings per share attributable to shareholders of the Bank	4	14 fils	12 fils	33 fils	29 fils

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 June 2015 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Profit for the period	70,447	63,746	169,994	149,714
Other comprehensive income:				
Net gains on investments available for sale transferred to consolidated statement of income	(2,425)	(17,267)	(3,937)	(19,258)
Impairment losses on investments available for sale transferred to consolidated statement of income	1,664	-	3,587	91
Change in fair value of investments available for sale	(5,117)	5,004	4,500	22,027
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	-	-	(8,471)	-
Share of other comprehensive income (loss) of associates	105	208	86	(295)
Exchange differences on translation of foreign operations	2,382	(7,976)	(4,043)	(6,671)
Other comprehensive loss for the period reclassifiable to consolidated statement of income in subsequent periods	(3,391)	(20,031)	(8,278)	(4,106)
Total comprehensive income for the period	67,056	43,715	161,716	145,608
Attributable to:				
Shareholders of the Bank	63,629	42,410	155,164	141,210
Non-controlling interests	3,427	1,305	6,552	4,398
	67,056	43,715	161,716	145,608

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015 (Unaudited)

		Audited	
		31 December	30 June
		2014	2014
	Notes	KD 000's	KD 000's
Assets			
Cash and short term funds		3,131,991	2,470,569
Central Bank of Kuwait bonds		534,688	675,629
Kuwait Government treasury bonds		344,529	338,494
Deposits with banks		2,050,515	1,758,304
Loans, advances and Islamic financing to customers		11,908,708	11,266,719
Investment securities		2,493,693	2,203,160
Investment in associates		119,398	256,070
Land, premises and equipment		203,414	195,858
Goodwill and other intangible assets		696,416	692,756
Other assets		162,371	172,880
Investment in an associate held for sale	5	138,408	-
Total assets		21,784,131	20,030,439
Liabilities			
Due to banks and other financial institutions		6,705,717	5,794,295
Customer deposits		11,259,736	10,910,575
Certificates of deposit issued		675,065	349,460
Other liabilities		273,073	248,728
Total liabilities		18,913,591	17,303,058
Equity			
Share capital	6	479,973	479,973
Proposed bonus shares	6	23,999	-
Statutory reserve		239,987	228,559
Share premium account		699,840	699,840
Treasury shares	6	(78,795)	(78,795)
Treasury shares reserve		14,878	14,878
Other reserves		1,273,389	1,171,681
Equity attributable to shareholders of the Bank		2,653,271	2,516,136
Perpetual Tier 1 Capital Securities	7	-	-
Non-controlling interests		217,269	211,245
Total equity		2,870,540	2,727,381
Total liabilities and equity		21,784,131	20,030,439

Nasser Musaed Abdullah Al-Sayer
Chairman

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2015 (Unaudited)

		Six months ended 30 June	
		2015	2014
	Notes	KD 000's	KD 000's
Operating activities			
Profit for the period		169,994	149,714
Adjustments for:			
Net investment income		(33,538)	(21,639)
Share of results of associates		(92)	(7,728)
Depreciation of premises and equipment		7,530	7,510
Amortisation of intangible assets		2,506	2,528
Provision charge for credit losses		58,102	62,241
Impairment losses		11,995	1,815
Share based payment reserve		833	766
Taxation	3	19,593	11,585
Operating profit before changes in operating assets and liabilities		236,923	206,792
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(157,859)	(141,170)
Kuwait Government treasury bonds		(3,240)	(18,246)
Deposits with banks		(106,415)	(858,632)
Loans, advances and Islamic financing to customers		(863,705)	(632,853)
Other assets		(16,817)	63,250
Due to banks and other financial institutions		154,379	849,430
Customer deposits		756,310	432,527
Certificates of deposit issued		22,857	108,476
Other liabilities		18,515	35,513
Tax paid		(25,525)	(17,239)
Net cash from operating activities		15,423	27,848
Investing activities			
Purchase of investment securities		(775,347)	(597,157)
Proceeds from sale/redemption of investment securities		590,166	766,800
Dividend income		1,702	1,783
Proceeds from disposal of an associate	5	157,857	-
Dividend from associates		463	11,525
Proceeds from sale of land, premises and equipment		427	158
Purchase of land, premises and equipment		(20,263)	(11,327)
Net cash (used in) from investing activities		(44,995)	171,782
Financing activities			
Proceeds from issue of Perpetual Tier 1 Capital Securities	7	210,700	-
Transaction costs on issue of Perpetual Tier 1 Capital Securities		(933)	-
Dividends paid	6	(141,374)	(134,610)
Proceeds from sale of treasury shares		112	161
Dividend paid by a subsidiary to non-controlling interests		(4,087)	-
Net cash from (used in) financing activities		64,418	(134,449)
Increase in cash and short term funds		34,846	65,181
Exchange difference on translation of foreign operations		(4,043)	(6,671)
Cash and short term funds at 1 January		3,131,991	2,412,059
Cash and short term funds at 30 June		3,162,794	2,470,569

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2015 (Unaudited)

	Equity attributable to shareholders of the Bank							KD 000's			
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 6)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total
At 1 January 2014	457,117	22,856	228,559	699,840	(80,302)	16,224	1,164,550	2,508,844	-	202,950	2,711,794
Profit for the period	-	-	-	-	-	-	144,788	144,788	-	4,926	149,714
Other comprehensive loss	-	-	-	-	-	-	(3,578)	(3,578)	-	(528)	(4,106)
Total comprehensive income	-	-	-	-	-	-	141,210	141,210	-	4,398	145,608
Issue of bonus shares (Note 6)	22,856	(22,856)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(134,610)	(134,610)	-	-	(134,610)
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	-	161
Share based payment	-	-	-	-	-	-	599	599	-	26	625
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	-	3,724	3,724
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	-	147	79
At 30 June 2014	<u>479,973</u>	<u>-</u>	<u>228,559</u>	<u>699,840</u>	<u>(78,795)</u>	<u>14,878</u>	<u>1,171,681</u>	<u>2,516,136</u>	<u>-</u>	<u>211,245</u>	<u>2,727,381</u>
At 1 January 2015	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	2,870,540
Profit for the period	-	-	-	-	-	-	163,393	163,393	-	6,601	169,994
Other comprehensive loss	-	-	-	-	-	-	(8,229)	(8,229)	-	(49)	(8,278)
Total comprehensive income	-	-	-	-	-	-	155,164	155,164	-	6,552	161,716
Issue of bonus shares (Note 6)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities (Note 7)	-	-	-	-	-	-	-	-	210,700	-	210,700
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(933)	(933)	-	-	(933)
Sale of treasury shares	-	-	-	-	996	(884)	-	112	-	-	112
Share based payment	-	-	-	-	-	-	730	730	-	103	833
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,087)	(4,087)
Change in effective holding in a subsidiary	-	-	-	-	-	-	18	18	-	32	50
At 30 June 2015	<u>503,972</u>	<u>-</u>	<u>239,987</u>	<u>699,840</u>	<u>(77,799)</u>	<u>13,994</u>	<u>1,286,994</u>	<u>2,666,988</u>	<u>210,700</u>	<u>219,869</u>	<u>3,097,557</u>

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2015 (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 2015 were authorised for issue by the directors on 14 July 2015. 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 2014.

The annual consolidated financial statements for the year ended 31 December 2014 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 2014. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	KD 000’s	KD 000’s	KD 000’s	KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	633	549	1,456	1,245
National labour support tax	1,621	991	4,021	2,628
Zakat	735	422	1,768	1,055
Overseas tax	4,037	3,557	12,348	6,657
	<u>7,026</u>	<u>5,519</u>	<u>19,593</u>	<u>11,585</u>

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2015 (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 30 June		Six months ended 30 June	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Profit attributable to shareholders of the Bank	<u>66,875</u>	<u>60,853</u>	<u>163,393</u>	<u>144,788</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>4,948,091</u>	<u>4,946,917</u>	<u>4,947,937</u>	<u>4,946,625</u>
Basic and diluted earnings per share	<u>14 Fils</u>	<u>12 Fils</u>	<u>33 Fils</u>	<u>29 Fils</u>

Earnings per share calculations for the period ended 30 June 2014 have been adjusted to take account of the bonus shares issued in 2015.

5 Investment in an associate held for sale

During 2014, the Bank entered into an agreement to sell its 30% equity interest in International Bank of Qatar Q.S.C. for a sales consideration of KD 157,857 thousand. The investment was accordingly reclassified as an associate held for sale in the consolidated statement of financial position as at 31 December 2014.

During the period, the Bank concluded the sale transaction and recognised a pre-tax gain amounting to KD 27,920 thousand, inclusive of other comprehensive income amounting to KD 8,471 thousand. This amount is included under net investment income in the interim condensed consolidated statement of income.

6 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 5,039,717,687 shares (31 December 2014: 4,799,731,131 shares and 30 June 2014: 4,799,731,131 shares) of 100 fils each.

b) Treasury shares

	30 June	Audited	30 June
	2015	31 December 2014	2014
Number of treasury shares	91,626,899	88,381,436	88,381,436
Treasury shares as a percentage of total shares in issue	1.8%	1.8%	1.8%
Cost of treasury shares (KD thousand)	77,799	78,795	78,795
Market value of treasury shares (KD thousand)	78,799	80,427	84,846
Weighted average market value per treasury share (fils)	867	960	965

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 7 March 2015 approved 5% bonus shares (2013: 5%) and a cash dividend of 30 fils per share (2013: 30 fils per share) for the year ended 31 December 2014. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 239,986,556 (2013: 228,558,625) and share capital by KD 23,999 thousand (2013: KD 22,856 thousand).

30 June 2015 (Unaudited)

6 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 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the period	-	144,788	-	-	-	-	144,788
Other comprehensive (loss) income	-	-	(5,989)	2,411	-	-	(3,578)
Total comprehensive income (loss)	-	144,788	(5,989)	2,411	-	-	141,210
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Share based payment	-	-	-	-	599	-	599
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
At 30 June 2014	<u>117,058</u>	<u>1,078,946</u>	<u>(75,755)</u>	<u>37,230</u>	<u>14,202</u>	<u>-</u>	<u>1,171,681</u>
At 1 January 2015	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the period	-	163,393	-	-	-	-	163,393
Other comprehensive (loss) income	-	-	(9,871)	1,642	-	-	(8,229)
Total comprehensive income (loss)	-	163,393	(9,871)	1,642	-	-	155,164
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(933)	-	-	-	-	(933)
Share based payment	-	-	-	-	730	-	730
Change in effective holding in a subsidiary	-	18	-	-	-	-	18
At 30 June 2015	<u>117,058</u>	<u>1,180,224</u>	<u>(71,368)</u>	<u>45,517</u>	<u>15,563</u>	<u>-</u>	<u>1,286,994</u>

7 Perpetual Tier 1 Capital Securities

During the period, the Bank issued Perpetual Tier 1 Capital Securities (the “Capital Securities”), through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.

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:

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2015 (Unaudited)

8 Segmental analysis (continued)

	30 June 2015						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net operating income	<u>112,045</u>	<u>79,177</u>	<u>11,866</u>	<u>45,408</u>	<u>37,133</u>	<u>87,486</u>	<u>373,115</u>
Profit (loss) for the period	<u>68,310</u>	<u>64,068</u>	<u>6,016</u>	<u>16,048</u>	<u>(21,957)</u>	<u>37,509</u>	<u>169,994</u>
Total assets	<u>3,700,240</u>	<u>5,083,343</u>	<u>55,206</u>	<u>2,890,446</u>	<u>3,017,012</u>	<u>8,205,496</u>	<u>22,951,743</u>
Total liabilities	<u>4,083,374</u>	<u>2,103,366</u>	<u>6,237</u>	<u>2,584,265</u>	<u>2,455,295</u>	<u>8,621,649</u>	<u>19,854,186</u>

	30 June 2014						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net operating income	<u>105,038</u>	<u>77,287</u>	<u>13,061</u>	<u>40,129</u>	<u>20,980</u>	<u>75,180</u>	<u>331,675</u>
Profit (loss) for the period	<u>67,792</u>	<u>53,851</u>	<u>7,173</u>	<u>12,586</u>	<u>(26,562)</u>	<u>34,874</u>	<u>149,714</u>
Total assets	<u>3,409,060</u>	<u>4,700,038</u>	<u>53,897</u>	<u>2,418,987</u>	<u>2,445,650</u>	<u>7,002,807</u>	<u>20,030,439</u>
Total liabilities	<u>3,899,068</u>	<u>2,238,133</u>	<u>6,624</u>	<u>2,135,322</u>	<u>1,806,670</u>	<u>7,217,241</u>	<u>17,303,058</u>

9 Commitments and contingent liabilities

	30 June 2015 KD 000's	Audited 31 December 2014 KD 000's	30 June 2014 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>142,796</u>	<u>116,379</u>	<u>144,569</u>
Letters of credit	<u>383,142</u>	<u>302,231</u>	<u>286,018</u>
Guarantees	<u>2,765,516</u>	<u>2,457,116</u>	<u>2,379,377</u>
	<u>3,291,454</u>	<u>2,875,726</u>	<u>2,809,964</u>

Irrevocable commitments to extend credit amount to KD 806,329 thousand (31 December 2014: KD 644,854 thousand, 30 June 2014: KD 515,166 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.

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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 2015</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	1,471,756	785,675	33,654	2,291,085
Equities and other investments	136,298	65,659	87,788	289,745
	<u>1,608,054</u>	<u>851,334</u>	<u>121,442</u>	<u>2,580,830</u>
Derivative financial instruments (Note 11)	-	(22,026)	-	(22,026)
<i>31 December 2014</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	1,297,935	747,294	39,089	2,084,318
Equities and other investments	132,225	79,704	82,564	294,493
	<u>1,430,160</u>	<u>826,998</u>	<u>121,653</u>	<u>2,378,811</u>
Derivative financial instruments (Note 11)	-	(27,494)	-	(27,494)
<i>30 June 2014</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	1,013,798	727,696	40,832	1,782,326
Equities and other investments	130,100	94,653	84,413	309,166
	<u>1,143,898</u>	<u>822,349</u>	<u>125,245</u>	<u>2,091,492</u>
Derivative financial instruments (Note 11)	-	(1,538)	-	(1,538)

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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 2015 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions/ transfers KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 30 June 2015 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	39,089	-	-	(5,658)	223	33,654	865
Equities and other investments	82,564	(1,697)	8,113	(2,816)	1,624	87,788	2,302
	<u>121,653</u>	<u>(1,697)</u>	<u>8,113</u>	<u>(8,474)</u>	<u>1,847</u>	<u>121,442</u>	<u>3,167</u>

	<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 30 June 2014 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	44,900	-	-	(4,366)	298	40,832	962
Equities and other investments	89,619	(993)	968	(5,036)	(145)	84,413	5,956
	<u>134,519</u>	<u>(993)</u>	<u>968</u>	<u>(9,402)</u>	<u>153</u>	<u>125,245</u>	<u>6,918</u>

11 Derivative financial instruments

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

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

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

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

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11 Derivative financial instruments (continued)

Interest rate swaps

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

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts is summarised as follows:

	30 June 2015			Audited 31 December 2014			30 June 2014		
	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)	5,986	27,932	746,272	4,643	25,881	667,768	4,474	11,569	388,966
Forward foreign exchange contracts	8,238	8,318	1,532,006	6,198	12,454	1,359,531	7,668	2,111	1,760,408
	14,224	36,250	2,278,278	10,841	38,335	2,027,299	12,142	13,680	2,149,374

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2015 is negative KD 21,946 thousand (31 December 2014: negative KD 21,238 thousand, 30 June 2014: negative KD 7,095 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 31,918 thousand (31 December 2014: KD 28,344 thousand, 30 June 2014: KD 13,064 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 2015	31 December 2014 Audited KD 000's	30 June 2014 KD 000's
	30 June 2015	31 December 2014	30 June 2014	30 June 2015	31 December 2014	30 June 2014			
Board Members									
Loans (secured)	4	4	4	10	9	16	205,985	195,562	179,003
Contingent liabilities	1	1	2	11	11	14	21,791	12,495	28,854
Credit cards	7	6	8	2	5	10	45	62	70
Deposits	9	8	9	61	65	65	30,858	25,010	37,000
Collateral against credit facilities	4	4	4	12	11	15	300,028	293,532	385,032
Interest and fee income							3,794	6,718	3,169
Interest expense							35	73	39
Purchase of equipment and other expenses							3	431	362
Sale of property acquired on settlement of debts							-	18,000	-
Gain on sale of property acquired on settlement of debts							-	969	-
Executive Officers									
Loans	4	3	6	1	1	2	525	185	1,165
Contingent liabilities	5	5	4	-	-	-	2	2	2
Credit cards	12	11	11	1	-	1	25	30	22
Deposits	12	11	12	23	19	23	3,020	2,056	1,964
Interest and fee income							36	46	23
Associates									
Placements							-	174,151	10,857

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13 Key management compensation

Details of compensation for key management personnel are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2015	2014	2015	2014
	KD 000's	KD 000's	KD 000's	KD 000's
Salaries and other short term benefits	1,529	1,499	2,989	3,021
Post-employment benefits	98	138	260	204
Share based compensation	89	83	190	147
	1,716	1,720	3,439	3,372