

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2012 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2012 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Interest income		122,985	123,742	375,048	365,675
Interest expense		30,169	26,568	92,646	81,704
Net interest income		92,816	97,174	282,402	283,971
Murabaha and other Islamic financing income		11,755	-	11,755	-
Distribution to depositors and Murabaha costs		2,011	-	2,011	-
Net income from Islamic financing		9,744	-	9,744	-
Net interest income and net income from Islamic financing		102,560	97,174	292,146	283,971
Net fees and commissions		25,029	25,441	76,317	76,721
Investment income	4	82,969	1,063	86,797	8,667
Net gains from dealing in foreign currencies		6,552	6,087	18,105	17,453
Share of results of associates		3,303	4,600	10,543	12,708
Other operating income		501	136	1,074	889
Non-interest income		118,354	37,327	192,836	116,438
Net operating income		220,914	134,501	484,982	400,409
Staff expenses		28,250	22,658	74,835	70,052
Other administrative expenses		18,852	13,160	46,059	39,957
Depreciation of premises and equipment		3,512	2,948	9,932	8,788
Amortisation of intangible assets		1,017	1,009	3,043	3,067
Operating expenses		51,631	39,775	133,869	121,864
Operating profit before provision for credit losses and impairment losses		169,283	94,726	351,113	278,545
Provision charge for credit losses - specific		33,001	4,270	48,565	27,605
Provision charge for credit losses - general		20,998	6,962	48,298	7,172
Impairment losses for investment securities		2,522	-	10,621	4,900
Operating profit before taxation		112,762	83,494	243,629	238,868
Taxation	5	3,370	4,271	12,922	12,391
Profit for the period		109,392	79,223	230,707	226,477
Attributable to:					
Shareholders of the Bank		108,110	78,902	228,920	225,563
Non-controlling interests		1,282	321	1,787	914
		109,392	79,223	230,707	226,477
Basic and diluted earnings per share attributable to shareholders of the Bank	6	25 fils	18 fils	53 fils	52 fils

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME

30 September 2012 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Profit for the period	109,392	79,223	230,707	226,477
Other comprehensive income				
Change in fair value of investments available for sale	4,937	1,013	7,327	(711)
Net gains on investments available for sale transferred to consolidated statement of income	(795)	(632)	(2,869)	(4,079)
Impairment losses on investments available for sale transferred to consolidated statement of income	2,522	-	10,621	4,900
Share of other comprehensive income (loss) of associates	935	(162)	898	(2,155)
Exchange differences on translation of foreign operations	1,037	(3,337)	3,925	(23,151)
Other comprehensive income (loss) for the period included in equity	8,636	(3,118)	19,902	(25,196)
Total comprehensive income for the period	118,028	76,105	250,609	201,281
Attributable to:				
Shareholders of the Bank	116,466	75,725	248,582	200,634
Non-controlling interests	1,562	380	2,027	647
	118,028	76,105	250,609	201,281

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2012 (Unaudited)

		30 September 2012	Audited 31 December 2011	30 September 2011
	Notes	KD 000's	KD 000's	KD 000's
Assets				
Cash and short term funds		1,874,316	1,271,252	1,000,135
Central Bank of Kuwait bonds		563,782	454,378	498,960
Kuwait Government treasury bills		-	-	24,982
Kuwait Government treasury bonds		386,790	396,304	390,650
Deposits with banks		1,034,681	787,517	829,032
Loans, advances and Islamic financing to customers		9,628,801	8,182,226	7,920,548
Investment securities		1,671,117	1,503,035	1,457,635
Investment in associates		209,741	527,978	521,607
Land, premises and equipment		184,187	174,201	173,203
Goodwill and other intangible assets		642,252	215,503	216,384
Other assets		143,004	114,454	87,849
Total assets		16,338,671	13,626,848	13,120,985
Liabilities				
Due to banks and other financial institutions		4,946,066	4,310,339	4,185,930
Customer deposits		8,646,778	6,799,192	6,470,641
Other liabilities		257,688	180,744	195,191
Total liabilities		13,850,532	11,290,275	10,851,762
Equity				
Share capital	7	435,349	395,772	395,772
Proposed bonus shares	7	-	39,577	-
Statutory reserve		197,886	197,886	179,897
Share premium account		699,840	699,840	699,840
Treasury shares	7	(79,190)	(33,415)	(30,991)
Treasury shares reserve		17,974	20,403	20,413
General reserve		117,058	117,058	117,058
Retained earnings		958,039	729,601	869,878
Foreign currency translation reserve		(28,354)	(33,032)	(34,929)
Cumulative changes in fair values		38,341	23,357	28,983
Share based payment reserve		11,899	10,469	10,019
Total share capital and reserves		2,368,842	2,167,516	2,255,940
Proposed cash dividend	7	-	157,092	-
Equity attributable to shareholders of the Bank		2,368,842	2,324,608	2,255,940
Non-controlling interests		119,297	11,965	13,283
Total equity		2,488,139	2,336,573	2,269,223
Total liabilities and equity		16,338,671	13,626,848	13,120,985

Nasser Musaed Abdullah Al-Sayer
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 September 2012 (Unaudited)

	Notes	Nine months ended 30 September	
		2012 KD 000's	2011 KD 000's
Operating activities			
Profit for the period		230,707	226,477
Adjustments for:			
Investment income	4	(86,797)	(8,667)
Share of results of associates		(10,543)	(12,708)
Depreciation of premises and equipment		9,932	8,788
Amortisation of intangible assets		3,043	3,067
Provision charge for credit losses		96,863	34,777
Impairment losses for investment securities		10,621	4,900
Share based payment reserve		1,457	1,722
Taxation	5	12,922	12,391
Operating profit before changes in operating assets and liabilities		268,205	270,747
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(109,404)	(63,718)
Kuwait Government treasury bills		-	(24,982)
Kuwait Government treasury bonds		9,514	31,487
Deposits with banks		(61,248)	(112,610)
Loans, advances and Islamic financing to customers		(362,058)	(101,911)
Other assets		14,420	(15,234)
Due to banks and other financial institutions		139,922	112,050
Customer deposits		887,929	85,403
Other liabilities		39,019	10,205
Tax paid		(16,141)	(19,680)
Net cash from operating activities		810,158	171,757
Investing activities			
Purchase of investment securities		(1,164,249)	(1,346,904)
Proceeds from sale/redemption of investment securities		1,109,621	1,209,035
Dividend income		2,026	4,155
Acquisition of subsidiary net of cash acquired	3	49,331	-
Acquisition of non-controlling interests		(733)	-
Investment in associate		-	(22,717)
Dividend from associate		10,184	7,724
Proceeds from sale of land, premises and equipment		593	299
Purchase of land, premises and equipment		(12,407)	(7,941)
Net cash used in investing activities		(5,634)	(156,349)
Financing activities			
Dividends paid	7	(157,181)	(143,567)
Purchase of treasury shares		(54,773)	(20,657)
Proceeds from sale of treasury shares		6,569	173
Net cash used in financing activities		(205,385)	(164,051)
Increase (decrease) in cash and short term funds		599,139	(148,643)
Exchange difference on translation of foreign operations		3,925	(23,151)
Cash and short term funds at 1 January		1,271,252	1,171,929
Cash and short term funds at 30 September		1,874,316	1,000,135

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2012 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank												Non-controlling interests	Total	
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend			Total
At 1 January 2012	395,772	39,577	197,886	699,840	(33,415)	20,403	117,058	729,601	(33,032)	23,357	10,469	157,092	2,324,608	11,965	2,336,573
Profit for the period	-	-	-	-	-	-	-	228,920	-	-	-	-	228,920	1,787	230,707
Other comprehensive income	-	-	-	-	-	-	-	-	4,678	14,984	-	-	19,662	240	19,902
Total comprehensive income	-	-	-	-	-	-	-	228,920	4,678	14,984	-	-	248,582	2,027	250,609
Issue of bonus shares (Note 7)	39,577	(39,577)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(89)	-	-	-	89	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(157,181)	(157,181)	-	(157,181)
Sale of treasury shares	-	-	-	-	8,998	(2,429)	-	-	-	-	-	-	6,569	-	6,569
Purchase of treasury shares	-	-	-	-	(54,773)	-	-	-	-	-	-	-	(54,773)	-	(54,773)
Share based payment	-	-	-	-	-	-	-	-	-	-	1,430	-	1,430	27	1,457
Acquisition of non-controlling interests	-	-	-	-	-	-	-	(393)	-	-	-	-	(393)	(340)	(733)
Acquisition of a subsidiary (Note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	105,724	105,724
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(106)	(106)
At 30 September 2012	435,349	-	197,886	699,840	(79,190)	17,974	117,058	958,039	(28,354)	38,341	11,899	-	2,368,842	119,297	2,488,139
At 1 January 2011	359,793	35,979	179,897	699,840	(12,410)	22,316	117,058	644,377	(11,578)	30,561	8,297	143,505	2,217,635	12,868	2,230,503
Profit for the period	-	-	-	-	-	-	-	225,563	-	-	-	-	225,563	914	226,477
Other comprehensive loss	-	-	-	-	-	-	-	-	(23,351)	(1,578)	-	-	(24,929)	(267)	(25,196)
Total comprehensive income	-	-	-	-	-	-	-	225,563	(23,351)	(1,578)	-	-	200,634	647	201,281
Issue of bonus shares (Note 7)	35,979	(35,979)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(62)	-	-	-	62	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	-	-	-	-	-	(143,567)	(143,567)	-	(143,567)
Sale of treasury shares	-	-	-	-	2,076	(1,903)	-	-	-	-	-	-	173	-	173
Purchase of treasury shares	-	-	-	-	(20,657)	-	-	-	-	-	-	-	(20,657)	-	(20,657)
Share based payment	-	-	-	-	-	-	-	-	-	-	1,722	-	1,722	-	1,722
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(232)	(232)
At 30 September 2011	395,772	-	179,897	699,840	(30,991)	20,413	117,058	869,878	(34,929)	28,983	10,019	-	2,255,940	13,283	2,269,223

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

30 September 2012 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K. (the “Bank”) and its subsidiaries (collectively the “Group”) for the nine months period ended 30 September 2012 were authorised for issue in accordance with a resolution of the directors on 7 October 2012. 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 head 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 2011 except as noted below.

The annual consolidated financial statements for the year ended 31 December 2011 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 2011. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The Group has consolidated Boubyan Bank K.S.C., an Islamic bank acquired during this period. The following accounting policies applicable for Islamic banking products have been used in the preparation of this interim consolidated financial information in addition to those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2011.

Islamic financing to customers

Islamic finance to customers are financial assets originated by the Group and principally comprise of Murabaha, Wakala and Leased assets (the Group as a lessor).

Murabaha

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group stated at amortized cost net of any provision for impairment.

Wakala

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil’s fund, in accordance with regulations of the Islamic Sharia’a. Wakala is a financial asset originated by the Group and stated at amortized cost net of any provision for impairment.

Leased assets - the Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Leased assets are stated at amounts equal to the net investment outstanding in the leases less any provision for impairment.

30 September 2012 (Unaudited)

2 Accounting policies (continued)

Investment properties

Investment properties, which are held to earn rentals and / or for capital appreciation, are stated at their fair values at the reporting date. Gains or losses arising from changes in the fair value of the investment properties are included in the consolidated statement of income for the period in which they arise.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties.

Islamic customer deposits

Islamic customer deposits comprise of Murabaha payables, Investment accounts and Non-investment accounts as follows:

Murabaha payable

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortized cost.

Investment accounts

Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

Non-investment accounts

Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Bank. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Bank. Non-investment accounts are carried at cost.

Murabaha and other Islamic financing income

Income from Murabaha and other Islamic financing income is contractually determined at the commencement of the contract and is recognized on a pattern reflecting a constant periodic return on the outstanding net investments.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2012 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Business combination

During the period the Bank acquired an additional equity interest of 11.1% in Boubyan Bank K.S.C. (previously classified as 'investment in associate') increasing the effective equity interest to 58.4%. Having obtained control, the Bank reclassified the investment in Boubyan Bank K.S.C from associate to subsidiary and consolidated the financial statements of Boubyan Bank K.S.C from 31 July 2012 (the date of acquisition). Boubyan Bank K.S.C is incorporated in the State of Kuwait and is engaged in providing Islamic banking services.

As the business combination was achieved in stages, in accordance with IFRS 3: Business Combinations, the Bank re-measured its previously held equity interest in Boubyan Bank K.S.C at the acquisition date fair value and recognised the resulting gain in the consolidated statement of income. The acquisition date fair value amounted to KD 453,023 thousand and the gain on remeasurement amounted to KD 81,514 thousand which is included under 'Investment Income' in the consolidated statement of income (Note 4).

The acquisition of Boubyan Bank K.S.C has been accounted based on provisional values of identifiable assets and liabilities on the date of acquisition and the management is in the process of determining the fair values of assets and liabilities acquired.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

3 Business combination (continued)

The consideration paid, the provisional values of the assets and liabilities recognised at the date of acquisition and the non-controlling interest's proportionate share of the acquiree's identifiable net assets are summarised as follows:

	KD 000's
Assets	
Cash and short term funds	170,985
Deposits with banks	185,916
Islamic financing to customers	1,181,480
Investment securities	145,812
Investment properties	21,124
Investment in associates	8,789
Land, premises and equipment	8,104
Other assets	21,798
	1,744,008
Liabilities	
Due to banks and other financial institutions	495,805
Depositors accounts	959,657
Other liabilities	38,075
	1,493,537
Net assets	250,471
Non-controlling interests	(2,572)
Value of net assets acquired by the Group	247,899
Consideration transferred	121,654
Non-controlling interest in the acquiree	103,152
Fair value of acquirer's previously held equity interest	453,023
	677,829
Less: net assets acquired by the Group	247,899
Provisional goodwill	429,930
Cash and cash equivalents in subsidiary acquired	170,985
Consideration settled in cash	(121,654)
Cash inflow on acquisition	49,331

The interim condensed consolidated statement of income of the Group for the nine months period ended 30 September 2012, includes operating income of KD 10,552 thousand and profit attributable to the equity holders of the Bank amounting to KD 1,297 thousand of Boubyan Bank K.S.C.

Had the acquisition of Boubyan Bank K.S.C. taken place at the beginning of the year, the operating income of the Group for the period would have been higher by KD 32,518 thousand amounting to a total of KD 517,500 thousand and the profit attributable to the equity holders of the Bank would have been higher by KD 25 thousand amounting to a total of KD 228,945 thousand.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

4 Investment income

	Three months ended 30 September		Nine months ended 30 September	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Net realised gains on available for sale investments	795	632	2,869	4,079
Net gains from investments carried at fair value through statement of income	49	129	340	433
Dividend income	563	302	2,026	4,155
Gain on fair valuation of previously held equity interest (Note 3)	81,514	-	81,514	-
Income from investment properties	48	-	48	-
	<u>82,969</u>	<u>1,063</u>	<u>86,797</u>	<u>8,667</u>

5 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Contribution to Kuwait Foundation for the Advancement of Sciences	216	757	1,141	1,983
National labour support tax	278	1,646	2,443	4,611
Zakat	98	672	976	1,902
Taxation on overseas branches and subsidiaries	2,778	1,196	8,362	3,895
	<u>3,370</u>	<u>4,271</u>	<u>12,922</u>	<u>12,391</u>

6 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 September		Nine months ended 30 September	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Profit attributable to shareholders of the Bank	<u>108,110</u>	<u>78,902</u>	<u>228,920</u>	<u>225,563</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>4,299,252</u>	<u>4,328,234</u>	<u>4,314,539</u>	<u>4,335,437</u>
Basic and diluted earnings per share	<u>25 fils</u>	<u>18 fils</u>	<u>53 fils</u>	<u>52 fils</u>

Earnings per share calculations for the period ended 30 September 2011 have been adjusted to take account of the bonus shares issued in 2012.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

7 Shareholders' equity

- a) The authorised, issued and fully paid up share capital of the Bank comprises of 4,353,497,625 shares (31 December 2011: 3,957,725,114 shares and 30 September 2011: 3,957,725,114 shares) of 100 fils each.
- b) Treasury shares

	30 September 2012	Audited 31 December 2011	30 September 2011
Number of treasury shares	80,547,428	30,423,135	28,235,625
Treasury shares as a percentage of total shares in issue	1.9%	0.8%	0.7%
Cost of treasury shares (KD thousand)	79,190	33,415	30,991
Market value of treasury shares (KD thousand)	79,742	34,074	29,930

- c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 11 March 2012 approved 10% bonus shares (2010: 10%) and a cash dividend of 40 fils per share (2010: 40 fils per share) for the year ended 31 December 2011. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 395,772,511 (2010: 359,793,192) and share capital by KD 39,577 thousand (2010: KD 35,979 thousand).

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 results of activities of the Group's Islamic Banking subsidiary, Boubyan Bank K.S.C.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

8 Segmental analysis (continued)

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:

	30 September 2012						
	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 Center KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	50,120	41,277	5,560	10,861	81,357	31,739	220,914
Profit for the period	24,828	18,483	2,812	2,661	45,166	15,442	109,392
<i>Nine months</i>							
Net operating income	144,931	126,561	18,746	13,354	85,707	95,683	484,982
Profit for the period	83,754	78,328	9,984	5,154	3,652	49,835	230,707
Total assets	3,038,279	4,159,878	56,124	1,777,361	1,919,483	5,387,546	16,338,671

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

8 Segmental analysis (continued)

	30 September 2011					
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Center KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>						
Net operating income	<u>47,004</u>	<u>49,313</u>	<u>5,288</u>	<u>5,155</u>	<u>27,741</u>	<u>134,501</u>
Profit (loss) for the period	<u>28,231</u>	<u>33,728</u>	<u>2,488</u>	<u>(105)</u>	<u>14,881</u>	<u>79,223</u>
<i>Nine months</i>						
Net operating income	<u>136,612</u>	<u>142,556</u>	<u>17,004</u>	<u>22,118</u>	<u>82,119</u>	<u>400,409</u>
Profit (loss) for the period	<u>82,529</u>	<u>108,719</u>	<u>8,467</u>	<u>(11,904)</u>	<u>38,666</u>	<u>226,477</u>
Total assets	<u>2,818,510</u>	<u>4,248,002</u>	<u>53,353</u>	<u>1,845,685</u>	<u>4,155,435</u>	<u>13,120,985</u>

9 Commitments and contingent liabilities

	31 September 2012 KD 000's	Audited 31 December 2011 KD 000's	30 September 2011 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>61,448</u>	99,555	113,980
Letters of credit	<u>339,753</u>	281,398	291,693
Guarantees	<u>1,991,497</u>	1,685,644	1,709,805
	<u>2,392,698</u>	<u>2,066,597</u>	<u>2,115,478</u>

Irrevocable commitments to extend credit amount to KD 240,906 thousand (31 December 2011: KD 184,196 thousand, 30 September 2011: KD 188,533 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 September 2012 (Unaudited)

10 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 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.

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. 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 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:

	30 September 2012			Audited 31 December 2011			30 September 2011		
	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)	46	17,787	172,039	73	14,254	156,684	14	14,146	150,517
Interest rate swaps (others)	-	-	-	1,678	123	58,506	1,892	118	57,866
Forward foreign exchange contracts	3,641	4,534	895,062	7,399	2,425	1,039,998	9,766	7,058	968,721
	3,687	22,321	1,067,101	9,150	16,802	1,255,188	11,672	21,322	1,177,104

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2012 is negative KD 17,741 thousand (31 December 2011: negative KD 14,181 thousand, 30 September 2011: negative KD 14,132 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 20,211 thousand (31 December 2011: KD 12,248 thousand 30 September 2011: KD 13,763 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2012 (Unaudited)

11 Related party transactions

Certain related parties (major shareholders, directors and officers of the Bank, companies which they control or over which they exert significant influence, and entities associated with the Group) were customers of the Bank and its subsidiaries in the ordinary course of business. Such transactions 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. In accordance with Central Bank of Kuwait regulations regarding lending to Board Members and their related parties, such lending is secured by tangible collateral.

Details of the interests, as at the reporting date, of Board Members, Executive Officers and balances with Associates are as follows:

	Number of Board Members or Executive Officers			Number of related parties			30 September 2012	31 December 2011 Audited KD 000's	30 September 2011 KD 000's
	30 September 2012	31 December 2011	30 September 2011	30 September 2012	31 December 2011	30 September 2011			
Board Members and related parties									
Loans (secured)	4	5	5	12	14	12	200,349	235,723	223,811
Contingent liabilities	1	2	2	12	13	14	14,722	14,787	17,574
Credit cards	8	7	8	2	2	2	100	89	50
Deposits	9	9	9	12	15	14	29,167	70,166	74,490
Collateral against credit facilities	4	5	5	15	17	16	369,124	390,751	357,945
Interest and fee income							6,151	7,612	6,780
Interest expense							348	1,012	845
Executive Officers									
Loans	8	8	6	-	-	-	666	792	525
Contingent liabilities	1	1	1	-	-	-	6	6	6
Credit cards	5	5	4	-	-	-	45	30	6
Deposits	16	16	15	-	-	-	1,709	1,854	1,178
Interest and fee income							11	6	6
Interest expense							7	15	10
Associates									
Placements							98,778	220,721	251,986
Acceptances							97	38,834	61,185

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION**

30 September 2012 (Unaudited)

12 Key management compensation

Compensation for key management, including executive officers, comprises the following:

	Three months ended 30 September		Nine months ended 30 September	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Salaries and other short term benefits	3,077	2,758	8,925	8,516
Post-employment benefits	463	257	971	807
Share based compensation	261	379	825	1,080
	<u>3,801</u>	<u>3,394</u>	<u>10,721</u>	<u>10,403</u>