

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2015 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2015 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2015	2014	2015	2014
		KD 000's	KD 000's	KD 000's	KD 000's
Interest income		147,338	131,682	428,898	379,714
Interest expense		35,032	29,602	99,814	84,034
Net interest income		112,306	102,080	329,084	295,680
Murabaha and other Islamic financing income		27,383	22,582	77,623	63,527
Distribution to depositors and Murabaha costs		5,175	4,747	16,038	11,884
Net income from Islamic financing		22,208	17,835	61,585	51,643
Net interest income and net income from Islamic financing		134,514	119,915	390,669	347,323
Net fees and commissions		32,151	31,052	97,465	91,139
Net investment income	6	(4,944)	5,428	28,594	27,067
Net gains from dealing in foreign currencies		8,416	7,400	24,266	20,469
Share of results of associates		276	2,678	368	10,406
Other operating income		537	1,014	2,703	2,758
Non-interest income		36,436	47,572	153,396	151,839
Net operating income		170,950	167,487	544,065	499,162
Staff expenses		33,366	30,832	100,672	91,683
Other administrative expenses		20,875	19,857	56,964	55,288
Depreciation of premises and equipment		3,876	3,943	11,406	11,453
Amortisation of intangible assets		1,234	1,257	3,740	3,785
Operating expenses		59,351	55,889	172,782	162,209
Operating profit before provision for credit losses and impairment losses		111,599	111,598	371,283	336,953
Provision for credit losses and impairment losses	3	36,408	42,650	106,505	106,706
Operating profit before taxation		75,191	68,948	264,778	230,247
Taxation	4	6,994	6,496	26,587	18,081
Profit for the period		68,197	62,452	238,191	212,166
Attributable to:					
Shareholders of the Bank		64,528	59,133	227,921	203,921
Non-controlling interests		3,669	3,319	10,270	8,245
		68,197	62,452	238,191	212,166
Basic and diluted earnings per share attributable to shareholders of the Bank	5	13 Fils	12 Fils	46 Fils	41 Fils

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2015 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Profit for the period	68,197	62,452	238,191	212,166
Other comprehensive income:				
Net gains on investments available for sale transferred to consolidated statement of income	(2,073)	(4,874)	(6,010)	(24,132)
Impairment losses on investments available for sale transferred to consolidated statement of income	2,078	3,283	5,665	3,374
Change in fair value of investments available for sale	(18,398)	8,973	(13,898)	31,000
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 of associates	(93)	612	(7)	317
Exchange differences on translation of foreign operations	(14,317)	9,660	(18,360)	2,989
Other comprehensive (loss) income for the period reclassifiable to consolidated statement of income in subsequent periods	(32,803)	17,654	(41,081)	13,548
Total comprehensive income for the period	35,394	80,106	197,110	225,714
Attributable to:				
Shareholders of the Bank	33,373	75,659	188,537	216,869
Non-controlling interests	2,021	4,447	8,573	8,845
	35,394	80,106	197,110	225,714

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2015 (Unaudited)

		Audited	
	30 September	31 December	30 September
	2015	2014	2014
	Notes	KD 000's	KD 000's
Assets			
Cash and short term funds		3,131,991	3,757,627
Central Bank of Kuwait bonds		534,688	593,798
Kuwait Government treasury bonds		344,529	348,742
Deposits with banks		2,050,515	1,864,504
Loans, advances and Islamic financing to customers		11,908,708	11,583,201
Investment securities		2,493,693	2,260,639
Investment in associates		119,398	121,706
Land, premises and equipment		203,414	199,681
Goodwill and other intangible assets		696,416	695,025
Other assets		162,371	167,278
Investment in an associate held for sale	6	138,408	138,408
Total assets		21,784,131	21,730,609
Liabilities			
Due to banks and other financial institutions		6,705,717	7,376,732
Customer deposits		11,259,736	10,781,868
Certificates of deposit issued		675,065	494,092
Other liabilities		273,073	270,807
Total liabilities		18,913,591	18,923,499
Equity			
Share capital	7	479,973	479,973
Proposed bonus shares	7	23,999	-
Statutory reserve		239,987	228,559
Share premium account		699,840	699,840
Treasury shares	7	(78,795)	(78,795)
Treasury shares reserve		14,878	14,878
Other reserves		1,273,389	1,247,656
Equity attributable to shareholders of the Bank		2,653,271	2,592,111
Perpetual Tier 1 Capital Securities	8	-	-
Non-controlling interests		217,269	214,999
Total equity		2,870,540	2,807,110
Total liabilities and equity		21,784,131	21,730,609

Nasser Musaed Abdullah Al-Sayer
Chairman

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2015 (Unaudited)

	Notes	Nine months ended 30 September	
		2015 KD 000's	2014 KD 000's
Operating activities			
Profit for the period		238,191	212,166
Adjustments for:			
Net investment income		(28,594)	(27,067)
Share of results of associates		(368)	(10,406)
Depreciation of premises and equipment		11,406	11,453
Amortisation of intangible assets		3,740	3,785
Provision charge for credit losses	3	92,432	101,608
Impairment losses	3	14,073	5,098
Share based payment reserve		1,277	1,124
Taxation	4	26,587	18,081
Operating profit before changes in operating assets and liabilities		358,744	315,842
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(168,177)	(59,339)
Kuwait Government treasury bonds		(7,832)	(28,494)
Deposits with banks		530,847	(964,832)
Loans, advances and Islamic financing to customers		(1,412,735)	(988,208)
Other assets		(13,910)	68,852
Due to banks and other financial institutions		1,364,900	2,431,867
Customer deposits		379,066	303,820
Certificates of deposit issued		(20,112)	253,108
Other liabilities		19,163	48,835
Tax paid		(29,049)	(20,487)
Net cash from operating activities		1,000,905	1,360,964
Investing activities			
Purchase of investment securities		(1,326,478)	(937,765)
Proceeds from sale/redemption of investment securities		809,056	1,058,952
Dividend income		1,929	2,287
Proceeds from disposal of an associate	6	157,857	-
Dividend from associates		463	11,525
Proceeds from sale of land, premises and equipment		636	293
Purchase of land, premises and equipment		(29,566)	(19,228)
Net cash (used in) from investing activities		(386,103)	116,064
Financing activities			
Proceeds from issue of Perpetual Tier 1 Capital Securities	8	210,700	-
Transaction costs on issue of Perpetual Tier 1 Capital Securities		(977)	-
Dividends paid	7	(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		64,374	(134,449)
Increase in cash and short term funds		679,176	1,342,579
Exchange difference on translation of foreign operations		(18,360)	2,989
Cash and short term funds at 1 January		3,131,991	2,412,059
Cash and short term funds at 30 September		3,792,807	3,757,627

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 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 7)	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	-	-	-	-	-	-	203,921	203,921	-	8,245	212,166
Other comprehensive income	-	-	-	-	-	-	12,948	12,948	-	600	13,548
Total comprehensive income	-	-	-	-	-	-	216,869	216,869	-	8,845	225,714
Issue of bonus shares (Note 7)	22,856	(22,856)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(134,610)	(134,610)	-	-	(134,610)
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	-	161
Share based payment	-	-	-	-	-	-	915	915	-	68	983
Capital increase/redemption (net) in subsidiaries	-	-	-	-	-	-	-	-	-	2,989	2,989
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	-	147	79
At 30 September 2014	<u>479,973</u>	<u>-</u>	<u>228,559</u>	<u>699,840</u>	<u>(78,795)</u>	<u>14,878</u>	<u>1,247,656</u>	<u>2,592,111</u>	<u>-</u>	<u>214,999</u>	<u>2,807,110</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	-	-	-	-	-	-	227,921	227,921	-	10,270	238,191
Other comprehensive loss	-	-	-	-	-	-	(39,384)	(39,384)	-	(1,697)	(41,081)
Total comprehensive income	-	-	-	-	-	-	188,537	188,537	-	8,573	197,110
Issue of bonus shares (Note 7)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities (Note 8)	-	-	-	-	-	-	-	-	210,700	-	210,700
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(977)	(977)	-	-	(977)
Sale of treasury shares	-	-	-	-	996	(884)	-	112	-	-	112
Share based payment	-	-	-	-	-	-	1,124	1,124	-	153	1,277
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 September 2015	<u>503,972</u>	<u>-</u>	<u>239,987</u>	<u>699,840</u>	<u>(77,799)</u>	<u>13,994</u>	<u>1,320,717</u>	<u>2,700,711</u>	<u>210,700</u>	<u>221,940</u>	<u>3,133,351</u>

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 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 nine months period ended 30 September 2015 were authorised for issue by the directors on 7 October 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 Provision for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2015 KD 000’s	2014 KD 000’s	2015 KD 000’s	2014 KD 000’s
Provision charge for credit losses – specific	8,715	15,401	27,280	41,818
Provision charge for credit losses – general	25,615	23,966	65,152	59,790
Impairment losses	2,078	3,283	14,073	5,098
	36,408	42,650	106,505	106,706

4 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2015 KD 000’s	2014 KD 000’s	2015 KD 000’s	2014 KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	601	558	2,057	1,803
National labour support tax	1,657	938	5,678	3,566
Zakat	717	393	2,485	1,448
Overseas tax	4,019	4,607	16,367	11,264
	6,994	6,496	26,587	18,081

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2015 (Unaudited)

5 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	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Profit attributable to shareholders of the Bank	<u>64,528</u>	<u>59,133</u>	<u>227,921</u>	<u>203,921</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>4,947,989</u>	<u>4,946,723</u>
Basic and diluted earnings per share	<u>13 Fils</u>	<u>12 Fils</u>	<u>46 Fils</u>	<u>41 Fils</u>

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

6 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.

The Bank concluded the sale transaction during the current period and recognised a pre-tax gain net of certain settlement costs amounting to KD 21,862 thousand inclusive of other comprehensive income of KD 8,471 thousand. This amount is included under net investment income in the interim condensed consolidated statement of income.

7 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 September 2014: 4,799,731,131 shares) of 100 fils each.

b) Treasury shares

	30 September 2015	Audited 31 December 2014	30 September 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)	74,218	80,427	86,614
Weighted average market value per treasury share (fils)	854	960	972

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 September 2015 (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 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the period	-	203,921	-	-	-	-	203,921
Other comprehensive income	-	-	2,575	10,373	-	-	12,948
Total comprehensive income	-	203,921	2,575	10,373	-	-	216,869
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Share based payment	-	-	-	-	915	-	915
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
At 30 September 2014	<u>117,058</u>	<u>1,138,079</u>	<u>(67,191)</u>	<u>45,192</u>	<u>14,518</u>	<u>-</u>	<u>1,247,656</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	-	227,921	-	-	-	-	227,921
Other comprehensive loss	-	-	(22,837)	(16,547)	-	-	(39,384)
Total comprehensive income (loss)	-	227,921	(22,837)	(16,547)	-	-	188,537
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	(977)	-	-	-	-	(977)
Share based payment	-	-	-	-	1,124	-	1,124
Change in effective holding in a subsidiary	-	18	-	-	-	-	18
At 30 September 2015	<u>117,058</u>	<u>1,244,708</u>	<u>(84,334)</u>	<u>27,328</u>	<u>15,957</u>	<u>-</u>	<u>1,320,717</u>

8 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.

9 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 September 2015 (Unaudited)

9 Segmental analysis (continued)

	30 September 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>170,123</u>	<u>120,394</u>	<u>17,758</u>	<u>69,497</u>	<u>34,952</u>	<u>131,341</u>	<u>544,065</u>
Profit (loss) for the period	<u>101,434</u>	<u>96,593</u>	<u>9,011</u>	<u>25,182</u>	<u>(51,338)</u>	<u>57,309</u>	<u>238,191</u>
Total assets	<u>3,833,320</u>	<u>5,122,703</u>	<u>57,880</u>	<u>2,978,685</u>	<u>2,412,611</u>	<u>9,371,140</u>	<u>23,776,339</u>
Total liabilities	<u>3,987,255</u>	<u>1,848,066</u>	<u>7,397</u>	<u>2,666,244</u>	<u>2,340,330</u>	<u>9,793,696</u>	<u>20,642,988</u>
	30 September 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>159,594</u>	<u>117,532</u>	<u>20,017</u>	<u>60,040</u>	<u>27,237</u>	<u>114,742</u>	<u>499,162</u>
Profit (loss) for the period	<u>101,918</u>	<u>75,724</u>	<u>11,243</u>	<u>20,290</u>	<u>(52,903)</u>	<u>55,894</u>	<u>212,166</u>
Total assets	<u>3,484,999</u>	<u>4,870,119</u>	<u>59,062</u>	<u>2,510,790</u>	<u>2,425,792</u>	<u>8,379,847</u>	<u>21,730,609</u>
Total liabilities	<u>3,905,726</u>	<u>2,030,850</u>	<u>7,661</u>	<u>2,218,912</u>	<u>2,136,456</u>	<u>8,623,894</u>	<u>18,923,499</u>

10 Commitments and contingent liabilities

	30 September 2015 KD 000's	Audited 31 December 2014 KD 000's	30 September 2014 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>162,512</u>	116,379	174,761
Letters of credit	<u>329,147</u>	302,231	291,993
Guarantees	<u>2,994,386</u>	2,457,116	2,365,185
	<u>3,486,045</u>	<u>2,875,726</u>	<u>2,831,939</u>

Irrevocable commitments to extend credit amount to KD 784,862 thousand (31 December 2014: KD 644,854 thousand, 30 September 2014: KD 561,634 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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11 Fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

<i>30 September 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	1,597,363	972,301	32,453	2,602,117
Equities and other investments	143,826	62,467	82,901	289,194
	<u>1,741,189</u>	<u>1,034,768</u>	<u>115,354</u>	<u>2,891,311</u>
Derivative financial instruments (Note 12)	-	(37,216)	-	(37,216)
<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 12)	-	(27,494)	-	(27,494)
<i>30 September 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	1,091,623	701,785	39,707	1,833,115
Equities and other investments	136,926	94,919	83,395	315,240
	<u>1,228,549</u>	<u>796,704</u>	<u>123,102</u>	<u>2,148,355</u>
Derivative financial instruments (Note 12)	-	(3,066)	-	(3,066)

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11 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 September 2015 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	39,089	-	-	(6,692)	56	32,453	1,275
Equities and other investments	82,564	(3,947)	8,128	(5,487)	1,643	82,901	4,172
	121,653	(3,947)	8,128	(12,179)	1,699	115,354	5,447

	<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 September 2014 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	44,900	-	-	(5,335)	142	39,707	1,441
Equities and other investments	89,619	(2,115)	2,287	(7,262)	866	83,395	9,607
	134,519	(2,115)	2,287	(12,597)	1,008	123,102	11,048

12 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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12 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 September 2015			Audited 31 December 2014			30 September 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)	4,237	39,735	844,749	4,643	25,881	667,768	5,405	12,272	411,021
Forward foreign exchange contracts	7,571	9,289	1,780,782	6,198	12,454	1,359,531	11,793	7,992	1,574,141
	11,808	49,024	2,625,531	10,841	38,335	2,027,299	17,198	20,264	1,985,162

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2015 is negative KD 35,498 thousand (31 December 2014: negative KD 21,238 thousand, 30 September 2014: negative KD 6,867 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 34,230 thousand (31 December 2014: KD 28,344 thousand, 30 September 2014: KD 13,953 thousand).

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13 Related party transactions

Related parties comprise board members and executive officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties			30 September 2015	31 December 2014 Audited KD 000's	30 September 2014 KD 000's
	30 September 2015	31 December 2014	30 September 2014	30 September 2015	31 December 2014	30 September 2014			
Board Members							KD 000's		
Loans (secured)	4	4	3	11	9	10	253,828	195,562	207,129
Contingent liabilities	1	1	1	11	11	11	18,886	12,495	13,330
Credit cards	6	6	6	3	5	6	32	62	59
Deposits	8	8	8	65	65	71	36,384	25,010	25,007
Collateral against credit facilities	4	4	3	12	11	10	324,760	293,532	337,300
Interest and fee income							5,642	6,718	4,929
Interest expense							50	73	54
Purchase of equipment and other expenses							15	431	381
Sale of property acquired on settlement of debts							-	18,000	18,000
Gain on sale of property acquired on settlement of debts							-	969	969
Executive Officers									
Loans	4	3	4	1	1	1	580	185	160
Contingent liabilities	5	5	4	-	-	-	2	2	2
Credit cards	12	11	9	-	-	-	64	30	21
Deposits	12	11	11	24	19	19	3,526	2,056	2,074
Interest and fee income							58	46	34
Interest expense							2	-	-
Associates									
Placements							-	174,151	161,316

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13 Related party transactions (continued)

Details of compensation for key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2015 KD 000's	2014 KD 000's	2015 KD 000's	2014 KD 000's
Salaries and other short term benefits	1,558	1,459	4,547	4,480
Post-employment benefits	84	51	344	255
Share based compensation	113	54	303	201
	<u>1,755</u>	<u>1,564</u>	<u>5,194</u>	<u>4,936</u>

14 Subsequent event

The Bank plans to issue Kuwaiti Dinar denominated subordinated Tier II bonds amounting up to KD 125,000 thousand with a tenor of up to 10 years. These bonds are unsecured and callable in whole or in part at the option of the Bank after 5 years from the date of issuance, subject to certain conditions.