

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2016 (UNAUDITED)



Building a better
working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2016, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three months and six months periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and the executive regulation of Law No. 25 of 2012, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the six months period ended 30 June 2016 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the six months period ended 30 June 2016 that might have had a material effect on the business of the Bank or on its financial position.

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AL-WAZZAN & CO.

10 July 2016
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2016 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Interest income		162,688	144,567	318,410	281,560
Interest expense		47,075	34,235	89,131	64,782
Net interest income		115,613	110,332	229,279	216,778
Murabaha and other Islamic financing income		31,171	25,900	61,078	50,240
Distribution to depositors and Murabaha costs		8,336	5,345	15,286	10,863
Net income from Islamic financing		22,835	20,555	45,792	39,377
Net interest income and net income from Islamic financing		138,448	130,887	275,071	256,155
Net fees and commissions		33,414	34,566	66,824	65,314
Net investment income	3	2,583	3,149	4,050	33,630
Net gains from dealing in foreign currencies		8,206	8,403	15,605	15,850
Other operating income		240	1,577	579	2,166
Non-interest income		44,443	47,695	87,058	116,960
Net operating income		182,891	178,582	362,129	373,115
Staff expenses		37,712	36,403	71,617	67,306
Other administrative expenses		21,199	18,518	40,698	36,089
Depreciation of premises and equipment		4,099	3,724	8,148	7,530
Amortisation of intangible assets		1,134	1,256	2,332	2,506
Operating expenses		64,144	59,901	122,795	113,431
Operating profit before provision for credit losses and impairment losses		118,747	118,681	239,334	259,684
Provision charge for credit losses and impairment losses	4	35,706	41,208	66,623	70,097
Operating profit before taxation		83,041	77,473	172,711	189,587
Taxation	5	7,256	7,026	14,222	19,593
Profit for the period		75,785	70,447	158,489	169,994
Attributable to:					
Shareholders of the Bank		71,682	66,875	150,617	163,393
Non-controlling interests		4,103	3,572	7,872	6,601
		75,785	70,447	158,489	169,994
Basic and diluted earnings per share attributable to shareholders of the Bank	6	12 fils	13 fils	27 fils	31 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 June 2016 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Profit for the period	75,785	70,447	158,489	169,994
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	(3,424)	(5,117)	(13,889)	4,500
Net transfer to consolidated statement of income	1,576	(761)	5,823	(350)
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	(302)	105	(322)	86
Exchange differences on translation of foreign operations	(707)	2,382	(31,300)	(4,043)
Other comprehensive loss for the period reclassifiable to consolidated statement of income in subsequent periods	(2,857)	(3,391)	(39,688)	(8,278)
Total comprehensive income for the period	72,928	67,056	118,801	161,716
Attributable to:				
Shareholders of the Bank	69,271	63,629	111,309	155,164
Non-controlling interests	3,657	3,427	7,492	6,552
	72,928	67,056	118,801	161,716

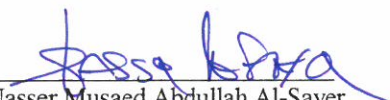
The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016 (Unaudited)

		30 June 2016 KD 000's	Audited 31 December 2015 KD 000's	30 June 2015 KD 000's
Assets				
Cash and short term funds		2,938,320	3,481,371	3,162,794
Central Bank of Kuwait bonds		752,944	803,930	692,547
Kuwait Government treasury bonds		435,891	380,052	347,769
Deposits with banks		2,031,959	1,426,679	2,156,930
Loans, advances and Islamic financing to customers		13,702,903	13,550,966	12,716,338
Investment securities		3,009,387	2,784,334	2,683,354
Investment in associates		84,505	92,713	113,235
Land, premises and equipment		243,114	226,501	215,720
Goodwill and other intangible assets		656,975	677,594	683,868
Other assets		211,311	173,490	179,188
Total assets		24,067,309	23,597,630	22,951,743
Liabilities				
Due to banks and other financial institutions		7,025,317	7,306,467	6,860,096
Customer deposits		12,559,944	12,059,203	12,016,046
Certificates of deposit issued		714,458	655,257	697,922
Subordinated Tier 2 bonds		124,684	124,664	-
Other liabilities		281,540	260,915	280,122
Total liabilities		20,705,943	20,406,506	19,854,186
Equity				
Share capital	7	563,566	503,972	503,972
Proposed bonus shares	7	-	25,198	-
Statutory reserve		251,986	251,986	239,987
Share premium account	7	803,028	699,840	699,840
Treasury shares	7	(77,799)	(77,799)	(77,799)
Treasury shares reserve		13,994	13,994	13,994
Other reserves	7	1,292,901	1,338,748	1,286,994
Equity attributable to shareholders of the Bank		2,847,676	2,755,939	2,666,988
Perpetual Tier 1 Capital Securities		210,700	210,700	210,700
Non-controlling interests	8	302,990	224,485	219,869
Total equity		3,361,366	3,191,124	3,097,557
Total liabilities and equity		24,067,309	23,597,630	22,951,743


 Nasser Musaed Abdullah Al-Sayer
 Chairman

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2016 (Unaudited)

	Notes	Six months ended 30 June	
		2016 KD 000's	2015 KD 000's
Operating activities			
Profit for the period		158,489	169,994
Adjustments for:			
Net investment income		(4,050)	(33,630)
Depreciation of premises and equipment		8,148	7,530
Amortisation of intangible assets		2,332	2,506
Provision charge for credit losses and impairment losses	4	66,623	70,097
Share based payment reserve		288	833
Taxation	5	14,222	19,593
Operating profit before changes in operating assets and liabilities		246,052	236,923
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		50,986	(157,859)
Kuwait Government treasury bonds		(55,839)	(3,240)
Deposits with banks		(605,280)	(106,415)
Loans, advances and Islamic financing to customers		(205,870)	(863,705)
Other assets		(37,821)	(16,817)
Due to banks and other financial institutions		(281,150)	154,379
Customer deposits		500,741	756,310
Certificates of deposit issued		59,201	22,857
Other liabilities		45,674	18,515
Tax paid		(20,518)	(25,525)
Net cash (used in) from operating activities		(303,824)	15,423
Investing activities			
Purchase of investment securities		(1,028,482)	(775,347)
Proceeds from sale/redemption of investment securities		789,749	590,166
Dividend income		1,593	1,702
Proceeds from disposal of an associate		-	157,857
Dividend from associates		456	463
Proceeds from sale of land, premises and equipment		3,382	427
Purchase of land, premises and equipment		(28,143)	(20,263)
Net cash used in investing activities		(261,445)	(44,995)
Financing activities			
Proceeds from issuance of rights shares	7	137,584	-
Proceeds from issue of Perpetual Tier 1 Capital Securities		-	210,700
Transaction costs on issue of Perpetual Tier 1 Capital Securities		-	(933)
Proceeds from issue of Perpetual Tier 1 Sukuk by a subsidiary	8	75,388	-
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary		(650)	-
Dividends paid	7	(148,443)	(141,374)
Interest paid on Perpetual Tier 1 Capital Securities		(6,066)	-
Proceeds from sale of treasury shares		-	112
Dividend paid by a subsidiary to non-controlling interests		(4,295)	(4,087)
Net cash from financing activities		53,518	64,418
(Decrease) increase in cash and short term funds		(511,751)	34,846
Exchange difference on translation of foreign operations		(31,300)	(4,043)
Cash and short term funds at 1 January		3,481,371	3,131,991
Cash and short term funds at 30 June		2,938,320	3,162,794

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 June 2016 (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	
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 7)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	-	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	503,972	-	239,987	699,840	(77,799)	13,994	1,286,994	2,666,988	210,700	219,869	3,097,557
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the period	-	-	-	-	-	-	150,617	150,617	-	7,872	158,489
Other comprehensive loss	-	-	-	-	-	-	(39,308)	(39,308)	-	(380)	(39,688)
Total comprehensive income	-	-	-	-	-	-	111,309	111,309	-	7,492	118,801
Issue of bonus shares (Note 7)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Issue of rights shares (Note 7)	34,396	-	-	103,188	-	-	-	137,584	-	-	137,584
Dividends paid (Note 7)	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,066)	(6,066)	-	-	(6,066)
Transfer to cash settled share based compensation (Note 14)	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	168	168	-	120	288
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(18)	(18)	-	71	53
Issue of Perpetual Tier 1 Sukuk by a subsidiary (Note 8)	-	-	-	-	-	-	-	-	-	-	-
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(379)	(379)	-	75,388	75,388
At 30 June 2016	563,566	-	251,986	803,028	(77,799)	13,994	1,292,901	2,847,676	210,700	302,990	3,361,366

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 June 2016 (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 2016 were authorised for issue in accordance with a resolution of the directors on 10 July 2016. 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 2015, except as noted below.

The annual consolidated financial statements for the year ended 31 December 2015 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 2015. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

The following new accounting policy relating to cash settled share based compensation has been included in the preparation of this interim condensed consolidated financial information. (Refer note 14)

Cash settled share based compensation

The fair value of the employee services received in exchange for the cash settled share based payment is recognised as an expense, together with a corresponding increase in liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined using the Black Scholes model. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the consolidated statement of income.

Amendments to IFRSs which are effective for annual accounting period starting 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Net investment income

Net investment income for the period ended 30 June 2015 included a provisional pre-tax gain amounting to KD 27,920 thousand on sale of investment in an associate.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2016 (Unaudited)

4 Provision charge for credit losses and impairment losses

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's
Provision charge for credit losses – specific	1,603	9,847	7,555	18,565
Provision charge for credit losses – general	30,703	26,689	44,675	39,537
Impairment losses	3,400	4,672	14,393	11,995
	<u>35,706</u>	<u>41,208</u>	<u>66,623</u>	<u>70,097</u>

5 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's
National labour support tax	1,758	1,621	3,736	4,021
Zakat	791	735	1,646	1,768
Contribution to Kuwait Foundation for the Advancement of Sciences	654	633	1,316	1,456
Overseas tax	4,053	4,037	7,524	12,348
	<u>7,256</u>	<u>7,026</u>	<u>14,222</u>	<u>19,593</u>

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest paid on Perpetual Tier I Capital Securities) by the weighted average number of shares outstanding during the period net of treasury shares.

Diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest paid on Perpetual Tier I Capital Securities) 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 for 2015 arising from the issuance of employee share options did not result in any change from the reported basic earnings per share. Refer note 14 in this regard.

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	KD 000's	KD 000's	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	71,682	66,875	150,617	163,393
Less: Interest paid on Perpetual Tier 1 Capital Securities	(6,066)	-	(6,066)	-
	<u>65,616</u>	<u>66,875</u>	<u>144,551</u>	<u>163,393</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>5,359,088</u>	<u>5,323,489</u>	<u>5,341,289</u>	<u>5,323,324</u>
Basic and diluted earnings per share	<u>12 fils</u>	<u>13 fils</u>	<u>27 fils</u>	<u>31 fils</u>

Earnings per share calculations for the period ended 30 June 2015 have been adjusted to take account of the bonus shares and rights shares issued in 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 June 2016 (Unaudited)

7 Shareholders' equity

- a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2015: 5,039,717,687 shares and 30 June 2015: 5,039,717,687 shares) of 100 fils each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 19 March 2016. The issued and fully paid up share capital of the Bank comprises of 5,635,664,303 shares (31 December 2015: 5,039,717,687 shares and 30 June 2015: 5,039,717,687 shares) of 100 fils each.

During the period, the Bank made a rights issue to its shareholders at KD 0.400 per share made up of KD 0.100 share capital and KD 0.300 share premium. A total of 343,960,732 shares were issued resulting in an increase in share capital by KD 34,396 thousand and an increase in the share premium account by KD 103,188 thousand.

b) Treasury shares

	30 June 2016	Audited 31 December 2015	30 June 2015
Number of treasury shares	96,208,554	91,626,899	91,626,899
Treasury shares as a percentage of total shares in issue	1.7%	1.8%	1.8%
Cost of treasury shares (KD thousand)	77,799	77,799	77,799
Market value of treasury shares (KD thousand)	56,763	73,302	78,799
Weighted average market value per treasury share (fils)	679	845	867

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 19 March 2016 approved 5% bonus shares (2014: 5%) and a cash dividend of 30 fils per share (2014: 30 fils per share) for the year ended 31 December 2015. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 251,985,884 (2014: 239,986,556) and share capital by KD 25,198 thousand (2014: KD 23,999 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2016 (Unaudited)

7 Shareholders' equity (continued)

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
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	117,058	1,180,224	(71,368)	45,517	15,563	-	1,286,994
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	150,617	-	-	-	-	150,617
Other comprehensive loss	-	-	(31,096)	(8,212)	-	-	(39,308)
Total comprehensive income (loss)	-	150,617	(31,096)	(8,212)	-	-	111,309
Dividends paid	-	-	-	-	(148,443)	-	(148,443)
Interest paid on perpetual Tier 1 Capital Securities	-	(6,066)	-	-	-	-	(6,066)
Transfer to cash settled share based compensation (Note 14)	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	168	-	168
Change in effective holding in a subsidiary	-	(18)	-	-	-	-	(18)
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(379)	-	-	-	-	(379)
At 30 June 2016	117,058	1,251,375	(110,845)	21,260	14,053	-	1,292,901

8 Non-controlling interests

During the period, Boubyan Bank K.S.C.P. (Boubyan Bank), a subsidiary of the Group, issued “Tier 1 Sukuk”, through a Sharia’s compliant Sukuk arrangement amounting to USD 250,000 thousand. Tier 1 Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitutes direct, unsecured, subordinated obligations (senior only to share capital) of the Boubyan Bank subject to the terms and conditions of the Mudaraba Agreement. The Tier 1 Sukuk is listed on the Irish Stock Exchange and NASDAQ Dubai and callable by the Boubyan Bank after five-year period ending May 2021 (the “First Call Date”) or any profit payment date thereafter subject to certain redemption conditions. Tier 1 Sukuk bears an expected profit rate of 6.75% per annum to be paid semi-annually in arrears until the First Call Date. After that, the expected profit rate will be reset based on then prevailing 5 years U.S Mid Swap Rate plus initial margin of 5.588% per annum. At the issuer’s sole discretion, it may elect not to make any Mudaraba distributions expected and in such event, the Mudaraba profit will not be accumulated and the event is not considered an event of default.

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.

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9 Segmental analysis (continued)

The following table presents net operating income, profit for the period, total assets and total liabilities information in respect of the Group's business segments:

	30 June 2016						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Six months</i>							
Net operating income	<u>118,585</u>	<u>85,299</u>	<u>11,111</u>	<u>53,006</u>	<u>7,129</u>	<u>86,999</u>	<u>362,129</u>
Profit (loss) for the period	<u>68,175</u>	<u>67,476</u>	<u>5,594</u>	<u>18,930</u>	<u>(49,890)</u>	<u>48,204</u>	<u>158,489</u>
Total assets	<u>4,122,720</u>	<u>5,372,232</u>	<u>56,947</u>	<u>3,407,763</u>	<u>2,469,247</u>	<u>8,638,400</u>	<u>24,067,309</u>
Total liabilities	<u>4,234,035</u>	<u>2,075,623</u>	<u>10,383</u>	<u>3,003,528</u>	<u>2,305,984</u>	<u>9,076,390</u>	<u>20,705,943</u>

	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
<i>Six months</i>							
Net operating income	<u>112,045</u>	<u>79,177</u>	<u>11,866</u>	<u>45,408</u>	<u>36,939</u>	<u>87,680</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>(21,725)</u>	<u>37,277</u>	<u>169,994</u>
Total assets	<u>3,778,213</u>	<u>5,083,343</u>	<u>55,206</u>	<u>2,890,446</u>	<u>2,947,134</u>	<u>8,197,401</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>

10 Commitments and contingent liabilities

	30 June 2016 KD 000's	Audited 31 December 2015 KD 000's	30 June 2015 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>95,129</u>	118,367	142,796
Letters of credit	<u>289,055</u>	320,673	383,142
Guarantees	<u>3,619,850</u>	3,466,160	2,765,516
	<u>4,004,034</u>	<u>3,905,200</u>	<u>3,291,454</u>

Irrevocable commitments to extend credit amount to KD 1,240,071 thousand (31 December 2015: KD 755,668 thousand, 30 June 2015: KD 806,329 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.

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10 Commitments and contingent liabilities (continued)

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the interim condensed consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 87,101 thousand (31 December 2015: KD 93,456 thousand, 30 June 2015: KD 97,941 thousand).

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 June 2016</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	1,705,578	948,071	16,665	2,670,314
Equities and other investments	121,490	79,718	74,189	275,397
	<u>1,827,068</u>	<u>1,027,789</u>	<u>90,854</u>	<u>2,945,711</u>
Derivative financial instruments (Note 12)	-	(46,000)	-	(46,000)
<i>31 December 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	1,537,093	813,163	31,686	2,381,942
Equities and other investments	129,797	70,223	79,904	279,924
	<u>1,666,890</u>	<u>883,386</u>	<u>111,590</u>	<u>2,661,866</u>
Derivative financial instruments (Note 12)	-	(28,944)	-	(28,944)

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11 Fair value of financial instruments (continued)

30 June 2015	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
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 12)	-	(22,026)	-	(22,026)

The table below analyses the movement in level 3 and the income (interest, dividend and realised gain) generated during the periods.

	At 1 January 2016 KD 000's	Change in fair value KD 000's	Additions/ Transfer KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 June 2016 KD 000's	Net gains in the interim condensed consolidated statement of income KD 000's
Debt securities	31,686	-	14,000	(29,003)	(18)	16,665	514
Equities and other investments	79,904	(6,302)	2,566	(1,729)	(250)	74,189	2,104
	<u>111,590</u>	<u>(6,302)</u>	<u>16,566</u>	<u>(30,732)</u>	<u>(268)</u>	<u>90,854</u>	<u>2,618</u>

	At 1 January 2015 KD 000's	Change in fair value KD 000's	Additions/ Transfers KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 June 2015 KD 000's	Net gains in the interim condensed consolidated statement of income KD 000's
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>

12 Derivative financial instruments

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

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30 June 2016 (Unaudited)

12 Derivative financial instruments (continued)

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

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

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

Interest rate swaps

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

Forward foreign exchange

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

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

	30 June 2016			Audited 31 December 2015			30 June 2015		
	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)	3,367	63,026	1,101,104	6,361	33,597	900,027	5,986	27,932	746,272
Interest rate swaps (others)	2,233	2,164	89,452	758	689	101,718	-	-	-
Forward foreign exchange contracts	22,202	8,612	1,643,137	9,625	11,402	1,742,618	8,238	8,318	1,532,006
	27,802	73,802	2,833,693	16,744	45,688	2,744,363	14,224	36,250	2,278,278

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2016 is negative KD 59,659 thousand (31 December 2015: negative KD 27,236 thousand, 30 June 2015: negative KD 21,946 thousand). Gain on the hedged fixed income financial assets amounted to KD 55,510 thousand (31 December 2015: KD 29,664 thousand, 30 June 2015: KD 31,918 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 June 2015	30 June 2015	30 June 2015	30 June 2015	
	30 June 2016	31 December 2015	30 June 2015	30 June 2016	31 December 2015	30 June 2015	30 June 2016	31 December 2015 Audited					30 June 2015
Board Members													
Loans (secured)	4	4	4	10	11	10	213,897	259,355	205,985				
Contingent liabilities	1	1	1	12	12	11	20,078	18,889	21,791				
Credit cards	6	6	7	2	3	2	9	18	45				
Deposits	9	9	9	65	67	61	27,398	30,073	30,858				
Collateral against credit facilities	4	4	4	13	14	12	297,207	337,443	300,028				
Interest and fee income							4,458	7,629	3,794				
Interest expense							32	66	35				
Purchase of equipment and other expenses							10	27	3				
Sale of property acquired on settlement of debts							-	8,500	-				
Executive Officers													
Loans	3	4	4	2	2	1	2,130	2,609	525				
Contingent liabilities	5	5	5	-	-	-	2	2	2				
Credit cards	10	12	12	2	1	1	20	56	25				
Deposits	12	12	12	24	29	23	3,393	3,234	3,020				
Interest and fee income							42	85	36				
Interest expense							-	2	-				

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30 June 2016 (Unaudited)

13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Salaries and other short term benefits	1,740	1,529	3,427	2,989
Post-employment benefits	218	98	293	260
Share based compensation	109	89	222	190
	<u>2,067</u>	<u>1,716</u>	<u>3,942</u>	<u>3,439</u>

14 Share based payment

During the period the Bank modified the settlement terms of its share based compensation plan, from equity settlement to cash settlement. As per the modified plan, the settlement is based on the market value of the Bank's equity shares on vesting date. Accordingly, the Bank determined the fair value of the cash settled plan on the modification date and reclassified an amount of KD 2,418 thousand from share based payment reserve to other liabilities.