

**NATIONAL BANK OF KUWAIT GROUP**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**30 JUNE 2014 (UNAUDITED)**

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2014 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's
Interest income		123,307	122,310	248,032	241,707
Interest expense		27,581	25,529	54,432	51,735
<b>Net interest income</b>		<b>95,726</b>	96,781	<b>193,600</b>	189,972
Murabaha and other Islamic financing income		21,441	17,825	40,945	35,202
Distribution to depositors and Murabaha costs		3,904	2,357	7,137	4,798
<b>Net income from Islamic financing</b>		<b>17,537</b>	15,468	<b>33,808</b>	30,404
<b>Net interest income and net income from Islamic financing</b>		<b>113,263</b>	112,249	<b>227,408</b>	220,376
Net fees and commissions		30,895	29,182	60,087	54,623
Net investment income		18,099	12,110	21,639	14,684
Net gains from dealing in foreign currencies		6,982	6,728	13,069	13,307
Share of results of associates		3,028	4,139	7,728	8,053
Other operating income		961	778	1,744	1,397
<b>Non-interest income</b>		<b>59,965</b>	52,937	<b>104,267</b>	92,064
<b>Net operating income</b>		<b>173,228</b>	165,186	<b>331,675</b>	312,440
Staff expenses		31,843	31,737	60,851	59,681
Other administrative expenses		18,743	19,348	35,431	35,424
Depreciation of premises and equipment		3,764	3,622	7,510	7,334
Amortisation of intangible assets		1,256	2,379	2,528	3,276
<b>Operating expenses</b>		<b>55,606</b>	57,086	<b>106,320</b>	105,715
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>117,622</b>	108,100	<b>225,355</b>	206,725
Provision charge for credit losses - specific		23,174	2,794	26,417	12,637
Provision charge for credit losses - general		23,459	44,257	35,824	45,066
Impairment losses		1,724	856	1,815	856
<b>Operating profit before taxation</b>		<b>69,265</b>	60,193	<b>161,299</b>	148,166
Taxation	3	5,519	4,124	11,585	9,638
<b>Profit for the period</b>		<b>63,746</b>	56,069	<b>149,714</b>	138,528
<b>Attributable to:</b>					
Shareholders of the Bank		60,853	47,206	144,788	128,534
Non-controlling interests		2,893	8,863	4,926	9,994
		<b>63,746</b>	56,069	<b>149,714</b>	138,528
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	4	<b>13 fils</b>	10 fils	<b>31 fils</b>	27 fils

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 June 2014 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's
<b>Profit for the period</b>	<b>63,746</b>	56,069	<b>149,714</b>	138,528
<b>Other comprehensive income:</b>				
<i>Other comprehensive income reclassified to interim condensed consolidated statement of income:</i>				
Net gains on investments available for sale	(17,267)	(7,884)	(19,258)	(10,447)
Impairment losses on investments available for sale	-	856	91	856
<i>Other comprehensive income to be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Change in fair value of investments available for sale	5,004	(12,169)	22,027	(7,048)
Share of other comprehensive income (loss) of associates	208	4,088	(295)	4,102
Exchange differences on translation of foreign operations	(7,976)	(8,241)	(6,671)	(22,775)
<b>Other comprehensive loss for the period included in equity</b>	<b>(20,031)</b>	(23,350)	<b>(4,106)</b>	(35,312)
<b>Total comprehensive income for the period</b>	<b>43,715</b>	32,719	<b>145,608</b>	103,216
<b>Attributable to:</b>				
Shareholders of the Bank	42,410	23,837	141,210	93,031
Non-controlling interests	1,305	8,882	4,398	10,185
	<b>43,715</b>	32,719	<b>145,608</b>	103,216

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

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014 (Unaudited)

		Audited	
	Notes	30 June 2014 KD 000's	31 December 2013 KD 000's
			30 June 2013 KD 000's
<b>Assets</b>			
Cash and short term funds		2,470,569	2,412,059
Central Bank of Kuwait bonds		675,629	534,459
Kuwait Government treasury bonds		338,494	320,248
Deposits with banks		1,758,304	899,672
Loans, advances and Islamic financing to customers		11,266,719	10,695,317
Investment securities		2,203,160	2,350,175
Investment in associates		256,070	259,801
Land, premises and equipment		195,858	192,199
Goodwill and other intangible assets		692,756	700,085
Other assets		172,880	236,130
<b>Total assets</b>		<b>20,030,439</b>	<b>18,600,145</b>
<b>Liabilities</b>			
Due to banks and other financial institutions		5,794,295	4,944,865
Customer deposits		10,910,575	10,478,048
Certificates of deposit issued		349,460	240,984
Other liabilities		248,728	224,454
<b>Total liabilities</b>		<b>17,303,058</b>	<b>15,888,351</b>
<b>Equity</b>			
Share capital	5	479,973	457,117
Proposed bonus shares	5	-	22,856
Statutory reserve		228,559	228,559
Share premium account		699,840	699,840
Treasury shares	5	(78,795)	(80,302)
Treasury shares reserve		14,878	16,224
Other reserves		1,171,681	1,164,550
Equity attributable to shareholders of the Bank		2,516,136	2,508,844
Non-controlling interests		211,245	202,950
<b>Total equity</b>		<b>2,727,381</b>	<b>2,711,794</b>
<b>Total liabilities and equity</b>		<b>20,030,439</b>	<b>18,600,145</b>

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 June 2014 (Unaudited)

		<b>Six months ended 30 June</b>	
		<b>2014</b>	<b>2013</b>
	Notes	KD 000's	KD 000's
<b>Operating activities</b>			
Profit for the period		<b>149,714</b>	138,528
Adjustments for:			
Net investment income		<b>(21,639)</b>	(14,684)
Share of results of associates		<b>(7,728)</b>	(8,053)
Depreciation of premises and equipment		<b>7,510</b>	7,334
Amortisation of intangible assets		<b>2,528</b>	3,276
Provision charge for credit losses		<b>62,241</b>	57,703
Impairment losses		<b>1,815</b>	856
Share based payment reserve		<b>766</b>	801
Taxation	3	<b>11,585</b>	9,638
Operating profit before changes in operating assets and liabilities		<b>206,792</b>	195,399
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		<b>(141,170)</b>	(43,033)
Kuwait Government treasury bonds		<b>(18,246)</b>	50,438
Deposits with banks		<b>(858,632)</b>	(328,129)
Loans, advances and Islamic financing to customers		<b>(632,853)</b>	(480,641)
Other assets		<b>63,250</b>	(20,989)
Due to banks and other financial institutions		<b>849,430</b>	827,310
Customer deposits		<b>432,527</b>	619,797
Certificates of deposit issued		<b>108,476</b>	-
Other liabilities		<b>35,513</b>	33,915
Tax paid		<b>(17,239)</b>	(11,989)
Net cash from operating activities		<b>27,848</b>	842,078
<b>Investing activities</b>			
Purchase of investment securities		<b>(597,157)</b>	(952,181)
Proceeds from sale/redemption of investment securities		<b>766,800</b>	386,386
Dividend income		<b>1,783</b>	1,894
Dividend from associates		<b>11,525</b>	10,601
Increase in investment in associate		-	(553)
Proceeds from sale of land, premises and equipment		<b>158</b>	138
Purchase of land, premises and equipment		<b>(11,327)</b>	(5,814)
Net cash from (used in) investing activities		<b>171,782</b>	(559,529)
<b>Financing activities</b>			
Dividends paid	5	<b>(134,610)</b>	(128,248)
Purchase of treasury shares		-	(1,872)
Proceeds from sale of treasury shares		<b>161</b>	197
Net cash used in financing activities		<b>(134,449)</b>	(129,923)
<b>Increase in cash and short term funds</b>		<b>65,181</b>	152,626
Exchange difference on translation of foreign operations		<b>(6,671)</b>	(22,775)
Cash and short term funds at 1 January		<b>2,412,059</b>	1,610,765
<b>Cash and short term funds at 30 June</b>		<b>2,470,569</b>	1,740,616

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

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2014 (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	Other reserves (Note 5)	Total		
At 1 January 2013 (restated)	435,349	21,768	217,675	699,840	(79,171)	17,957	1,113,097	2,426,515	189,480	2,615,995
Profit for the period	-	-	-	-	-	-	128,534	128,534	9,994	138,528
Other comprehensive (loss) income	-	-	-	-	-	-	(35,503)	(35,503)	191	(35,312)
Total comprehensive income	-	-	-	-	-	-	93,031	93,031	10,185	103,216
Issue of bonus shares (Note 5)	21,768	(21,768)	-	-	-	-	-	-	-	-
Dividends paid (Note 5)	-	-	-	-	-	-	(128,248)	(128,248)	-	(128,248)
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	197	-	197
Purchase of treasury shares	-	-	-	-	(1,872)	-	-	(1,872)	-	(1,872)
Share based payment	-	-	-	-	-	-	721	721	80	801
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(161)	(161)
At 30 June 2013	<u>457,117</u>	<u>-</u>	<u>217,675</u>	<u>699,840</u>	<u>(79,113)</u>	<u>16,224</u>	<u>1,078,601</u>	<u>2,390,344</u>	<u>199,584</u>	<u>2,589,928</u>
At 1 January 2014	457,117	22,856	228,559	699,840	(80,302)	16,224	1,164,550	2,508,844	202,950	2,711,794
Profit for the period	-	-	-	-	-	-	144,788	144,788	4,926	149,714
Other comprehensive loss	-	-	-	-	-	-	(3,578)	(3,578)	(528)	(4,106)
<b>Total comprehensive income</b>	-	-	-	-	-	-	141,210	141,210	4,398	145,608
Issue of bonus shares (Note 5)	22,856	(22,856)	-	-	-	-	-	-	-	-
Dividends paid (Note 5)	-	-	-	-	-	-	(134,610)	(134,610)	-	(134,610)
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	161
Share based payment	-	-	-	-	-	-	599	599	26	625
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	3,724	3,724
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	147	79
At 30 June 2014	<u>479,973</u>	<u>-</u>	<u>228,559</u>	<u>699,840</u>	<u>(78,795)</u>	<u>14,878</u>	<u>1,171,681</u>	<u>2,516,136</u>	<u>211,245</u>	<u>2,727,381</u>

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

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (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 2014 were authorised for issue in accordance with a resolution of the directors on 8 July 2014. 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 2013.

The annual consolidated financial statements for the year ended 31 December 2013 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 2013. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

### 3 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	KD 000’s	KD 000’s	KD 000’s	KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	549	417	1,245	1,086
National labour support tax	991	606	2,628	2,208
Zakat	422	290	1,055	904
Taxation on overseas branches and subsidiaries	3,557	2,811	6,657	5,440
	<u>5,519</u>	<u>4,124</u>	<u>11,585</u>	<u>9,638</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (Unaudited)

### 4 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share options does not result in any change from the reported basic earnings per share.

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	KD 000's	KD 000's	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	<b>60,853</b>	47,206	<b>144,788</b>	128,534
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<b>4,711,350</b>	4,712,851	<b>4,711,072</b>	4,712,839
Basic and diluted earnings per share	<b>13 fils</b>	10 fils	<b>31 Fils</b>	27 fils

Earnings per share calculations for the period ended 30 June 2013 have been adjusted to take account of the bonus shares issued in 2014.

### 5 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 4,799,731,131 shares (31 December 2013: 4,571,172,506 shares and 30 June 2013: 4,571,172,506 shares) of 100 fils each.

b) Treasury shares

	30 June 2014	Audited 31 December 2013	30 June 2013
Number of treasury shares	<b>88,381,436</b>	85,782,085	84,469,085
Treasury shares as a percentage of total shares in issue	<b>1.8%</b>	1.9%	1.8%
Cost of treasury shares (KD thousand)	<b>78,795</b>	80,302	79,113
Market value of treasury shares (KD thousand)	<b>84,846</b>	76,346	79,401

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 9 March 2014 approved 5% bonus shares (2012: 5%) and a cash dividend of 30 fils per share (2012: 30 fils per share) for the year ended 31 December 2013. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 228,558,625 (2012: 217,674,881) and share capital by KD 22,856 thousand (2012: KD 21,768 thousand).



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (Unaudited)

## 5 Shareholders' equity (continued)

## d) Other reserves

	<b>KD 000's</b>						
	<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 2013	117,058	864,498	(35,522)	26,561	12,313	128,189	1,113,097
Profit for the period	-	128,534	-	-	-	-	128,534
Other comprehensive loss	-	-	(22,843)	(12,660)	-	-	(35,503)
Total comprehensive income (loss)	-	128,534	(22,843)	(12,660)	-	-	93,031
Dividends paid	-	-	-	-	-	(128,248)	(128,248)
Dividends on treasury shares sold	-	(59)	-	-	-	59	-
Share based payment	-	-	-	-	721	-	721
At 30 June 2013	117,058	992,973	(58,365)	13,901	13,034	-	1,078,601
At 1 January 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the period	-	144,788	-	-	-	-	144,788
Other comprehensive (loss) income	-	-	(5,989)	2,411	-	-	(3,578)
<b>Total comprehensive income (loss)</b>	-	144,788	(5,989)	2,411	-	-	141,210
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Share based payment	-	-	-	-	599	-	599
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
<b>At 30 June 2014</b>	<b>117,058</b>	<b>1,078,946</b>	<b>(75,755)</b>	<b>37,230</b>	<b>14,202</b>	<b>-</b>	<b>1,171,681</b>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (Unaudited)

### 6 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 and total assets information in respect of the Group's business segments:

	30 June 2014						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net operating income	<u>105,038</u>	<u>77,287</u>	<u>13,061</u>	<u>40,129</u>	<u>20,980</u>	<u>75,180</u>	<u>331,675</u>
Profit (loss) for the period	<u>69,475</u>	<u>53,851</u>	<u>7,173</u>	<u>12,585</u>	<u>(28,244)</u>	<u>34,874</u>	<u>149,714</u>
Total assets	<u>3,409,060</u>	<u>4,700,038</u>	<u>53,897</u>	<u>2,397,972</u>	<u>2,424,592</u>	<u>7,044,880</u>	<u>20,030,439</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (Unaudited)

### 6 Segmental analysis (continued)

	30 June 2013						
	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	99,815	81,417	13,315	31,908	19,511	66,474	312,440
Profit (loss) for the period	58,070	63,814	7,811	6,706	(32,546)	34,673	138,528
Total assets	3,217,806	4,386,240	54,204	1,987,768	2,661,124	5,622,158	17,929,300

### 7 Commitments and contingent liabilities

	Audited		
	30 June 2014 KD 000's	31 December 2013 KD 000's	30 June 2013 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	144,569	46,699	64,613
Letters of credit	286,018	299,048	340,961
Guarantees	2,379,377	2,237,844	2,074,288
	<b>2,809,964</b>	<b>2,583,591</b>	<b>2,479,862</b>

Irrevocable commitments to extend credit amount to KD 515,166 thousand (31 December 2013: KD 418,723 thousand, 30 June 2013: KD 369,740 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.

### 8 Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

The fair value of investment securities, quoted in an active market (stock exchanges and actively traded funds) amounts to KD 1,013,798 thousand (31 December 2013: KD 1,252,251 thousand, 30 June 2013: KD 1,069,875 thousand) for debt securities and KD 130,100 thousand (31 December 2013: KD 189,571 thousand, 30 June 2013: KD 160,469 thousand) for equities and other investments. Investment securities, which are tradable over the counter and / or are valued by using a significant input of observable market data amounts to KD 727,696 thousand (31 December 2013: KD 654,967 thousand, 30 June 2013: KD 670,626 thousand) for debt securities and KD 94,653 thousand (31 December 2013: KD 39,018 thousand, 30 June 2013: KD 80,212 thousand) for equities and other investments. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2014 (Unaudited)

### 8 Fair value of financial instruments (continued)

Investment securities, for which a significant input of the valuation is not based on observable market data amounts to KD 40,832 thousand (31 December 2013: KD 44,900 thousand, 30 June 2013: KD 44,863 thousand) for debt securities and KD 84,413 thousand (31 December 2013: KD 89,619 thousand, 30 June 2013: KD 84,373 thousand) for equities and other investments. The table below analyses the movement in these investment securities and the income (interest, dividend and realised gain) generated for the periods.

	<i>At 1 January 2014 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 30 June 2014 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	44,900	-	-	(4,366)	298	40,832	962
Equities and other investments	89,619	(993)	968	(5,036)	(145)	84,413	5,956
	<u>134,519</u>	<u>(993)</u>	<u>968</u>	<u>(9,402)</u>	<u>153</u>	<u>125,245</u>	<u>6,918</u>

  

	<i>At 1 January 2013 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 30 June 2013 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	45,530	-	-	(328)	(339)	44,863	990
Equities and other investments	95,502	123	579	(12,493)	662	84,373	5,229
	<u>141,032</u>	<u>123</u>	<u>579</u>	<u>(12,821)</u>	<u>323</u>	<u>129,236</u>	<u>6,219</u>

The positive and negative fair values of interest rate swaps and forward foreign exchange contracts, which are valued using significant inputs of observable market data, amount to KD 12,142 thousand (31 December 2013: KD 15,837 thousand, 30 June 2013: KD 10,169 thousand) and KD 13,680 thousand (31 December 2013: KD 13,799 thousand, 30 June 2013: KD 14,619 thousand) respectively (refer note 9 for details).

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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### 9 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. 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. 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 June 2014			Audited 31 December 2013			30 June 2013		
	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)	4,474	11,569	388,966	6,861	10,953	398,057	5,744	11,894	321,961
Forward foreign exchange contracts	7,668	2,111	1,760,408	8,976	2,846	1,027,343	4,425	2,725	984,538
	<b>12,142</b>	<b>13,680</b>	<b>2,149,374</b>	<b>15,837</b>	<b>13,799</b>	<b>1,425,400</b>	<b>10,169</b>	<b>14,619</b>	<b>1,306,499</b>

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2014 is negative KD 7,095 thousand (31 December 2013: negative KD 4,092 thousand, 30 June 2013: negative KD 6,150 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 13,064 thousand (31 December 2013: KD 6,250 thousand, 30 June 2013: KD 5,422 thousand).

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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### 10 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 2014	31 December 2013 Audited KD 000's	30 June 2013 KD 000's
	30 June 2014	31 December 2013	30 June 2013	30 June 2014	31 December 2013	30 June 2013			
<b>Board Members</b>									
Loans (secured)	4	4	3	16	16	17	179,003	197,421	196,955
Contingent liabilities	2	1	1	14	13	12	28,854	27,975	17,836
Credit cards	8	7	6	10	10	12	70	60	95
Deposits	9	9	9	65	59	60	37,000	24,128	30,393
Collateral against credit facilities	4	4	4	15	16	16	385,032	349,213	372,119
Interest and fee income							3,169	7,009	3,306
Interest expense							39	83	47
Purchase of equipment and other expenses							362	169	87
<b>Executive Officers</b>									
Loans	6	5	9	2	2	-	1,165	1,388	519
Contingent liabilities	4	4	2	-	-	-	2	7	6
Credit cards	11	12	4	1	2	-	22	35	8
Deposits	12	14	15	23	23	4	1,964	1,704	1,462
Interest and fee income							23	53	3
Interest expense							-	1	6
<b>Associates</b>									
Placements							10,857	78,160	216,433
Acceptances							-	745	1,612

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### 11 Key management compensation

Details of compensation to key management personnel are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
	KD 000's	KD 000's	KD 000's	KD 000's
Salaries and other short term benefits	724	816	1,471	1,607
Post-employment benefits	138	78	204	257
Share based compensation	83	102	147	216
	<u>945</u>	<u>996</u>	<u>1,822</u>	<u>2,080</u>

### 12 Family support fund

During the previous year, CBK issued its Circular No. 2/RB,RBA,RS/306/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. The Fund has been established to purchase outstanding balance of instalment and consumer loans (the 'loans') from the Bank as on 12 June 2013 for loans granted before 30 March 2008. As at 30 June 2014, the Bank derecognised a portion of the loans purchased by the Fund amounting to KD 155,195 thousand and transferred these loans to a memorandum account (off-balance sheet) as the Bank continues to manage them on behalf of the Fund.