

**NATIONAL BANK OF KUWAIT GROUP**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**30 SEPTEMBER 2016 (UNAUDITED)**



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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 September 2016, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three months and nine 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 nine 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 its executive regulation, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 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 nine months period ended 30 September 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.

9 October 2016  
Kuwait

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2016 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Interest income		167,864	147,338	486,274	428,898
Interest expense		48,883	35,032	138,014	99,814
<b>Net interest income</b>		<b>118,981</b>	<b>112,306</b>	<b>348,260</b>	<b>329,084</b>
Murabaha and other Islamic financing income		32,863	27,383	93,941	77,623
Distribution to depositors and Murabaha costs		9,043	5,175	24,329	16,038
<b>Net income from Islamic financing</b>		<b>23,820</b>	<b>22,208</b>	<b>69,612</b>	<b>61,585</b>
<b>Net interest income and net income from Islamic financing</b>		<b>142,801</b>	<b>134,514</b>	<b>417,872</b>	<b>390,669</b>
Net fees and commissions		31,763	32,151	98,587	97,465
Net investment income	3	395	(4,668)	4,445	28,962
Net gains from dealing in foreign currencies		8,418	8,416	24,023	24,266
Other operating income		276	537	855	2,703
<b>Non-interest income</b>		<b>40,852</b>	<b>36,436</b>	<b>127,910</b>	<b>153,396</b>
<b>Net operating income</b>		<b>183,653</b>	<b>170,950</b>	<b>545,782</b>	<b>544,065</b>
Staff expenses		35,528	33,366	107,145	100,672
Other administrative expenses		21,204	20,875	61,902	56,964
Depreciation of premises and equipment		4,132	3,876	12,280	11,406
Amortisation of intangible assets		1,133	1,234	3,465	3,740
<b>Operating expenses</b>		<b>61,997</b>	<b>59,351</b>	<b>184,792</b>	<b>172,782</b>
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>121,656</b>	<b>111,599</b>	<b>360,990</b>	<b>371,283</b>
Provision charge for credit losses and impairment losses	4	41,912	36,408	108,535	106,505
<b>Operating profit before taxation</b>		<b>79,744</b>	<b>75,191</b>	<b>252,455</b>	<b>264,778</b>
Taxation	5	6,724	6,994	20,946	26,587
<b>Profit for the period</b>		<b>73,020</b>	<b>68,197</b>	<b>231,509</b>	<b>238,191</b>
<b>Attributable to:</b>					
Shareholders of the Bank		68,645	64,528	219,262	227,921
Non-controlling interests		4,375	3,669	12,247	10,270
		<b>73,020</b>	<b>68,197</b>	<b>231,509</b>	<b>238,191</b>
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	6	<b>12 fils</b>	<b>12 fils</b>	<b>39 fils</b>	<b>43 fils</b>

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 2016 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
<b>Profit for the period</b>	<b>73,020</b>	<b>68,197</b>	<b>231,509</b>	<b>238,191</b>
<b>Other comprehensive income:</b>				
Investments available for sale:				
Net change in fair value	10,367	(18,398)	(3,522)	(13,898)
Net transfer to consolidated statement of income	(619)	5	5,204	(345)
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	-	-	-	(8,471)
Share of other comprehensive income (loss) of associates	60	(93)	(262)	(7)
Exchange differences on translation of foreign operations	(118)	(14,317)	(31,418)	(18,360)
<b>Other comprehensive income (loss) for the period reclassifiable to consolidated statement of income in subsequent periods</b>	<b>9,690</b>	<b>(32,803)</b>	<b>(29,998)</b>	<b>(41,081)</b>
<b>Total comprehensive income for the period</b>	<b>82,710</b>	<b>35,394</b>	<b>201,511</b>	<b>197,110</b>
<b>Attributable to:</b>				
Shareholders of the Bank	77,943	33,373	189,252	188,537
Non-controlling interests	4,767	2,021	12,259	8,573
	<b>82,710</b>	<b>35,394</b>	<b>201,511</b>	<b>197,110</b>


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 2016 (Unaudited)

		30 September 2016 KD 000's	Audited 31 December 2015 KD 000's	30 September 2015 KD 000's
<b>Assets</b>				
Cash and short term funds		3,194,273	3,481,371	3,792,807
Central Bank of Kuwait bonds		718,108	803,930	702,865
Kuwait Government treasury bonds		420,866	380,052	352,361
Deposits with banks		2,182,624	1,426,679	1,519,668
Loans, advances and Islamic financing to customers		13,876,700	13,550,966	13,231,818
Investment securities		3,239,259	2,784,334	2,996,011
Investment in associates		83,474	92,713	105,456
Land, premises and equipment		249,689	226,501	220,938
Goodwill and other intangible assets		650,059	677,594	678,134
Other assets		178,917	173,490	176,281
<b>Total assets</b>		<b>24,793,969</b>	<b>23,597,630</b>	<b>23,776,339</b>
<b>Liabilities</b>				
Due to banks and other financial institutions		7,743,759	7,306,467	8,070,617
Customer deposits		12,764,470	12,059,203	11,638,802
Certificates of deposit issued		402,067	655,257	654,953
Subordinated Tier 2 bonds		124,692	124,664	-
Other liabilities		315,653	260,915	278,616
<b>Total liabilities</b>		<b>21,350,641</b>	<b>20,406,506</b>	<b>20,642,988</b>
<b>Equity</b>				
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	1,370,340	1,338,748	1,320,717
Equity attributable to shareholders of the Bank		2,925,115	2,755,939	2,700,711
Perpetual Tier 1 Capital Securities		210,700	210,700	210,700
Non-controlling interests	8	307,513	224,485	221,940
<b>Total equity</b>		<b>3,443,328</b>	<b>3,191,124</b>	<b>3,133,351</b>
<b>Total liabilities and equity</b>		<b>24,793,969</b>	<b>23,597,630</b>	<b>23,776,339</b>

  
 Nasser Musaed Abdullah Al-Sayer  
 Chairman

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2016 (Unaudited)

	Notes	Nine months ended 30 September	
		2016 KD 000's	2015 KD 000's
<b>Operating activities</b>			
Profit for the period		231,509	238,191
Adjustments for:			
Net investment income		(4,445)	(28,962)
Depreciation of premises and equipment		12,280	11,406
Amortisation of intangible assets		3,465	3,740
Provision charge for credit losses and impairment losses	4	108,535	106,505
Share based payment reserve		426	1,277
Taxation	5	20,946	26,587
Operating profit before changes in operating assets and liabilities		<u>372,716</u>	<u>358,744</u>
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		85,822	(168,177)
Kuwait Government treasury bonds		(40,814)	(7,832)
Deposits with banks		(755,945)	530,847
Loans, advances and Islamic financing to customers		(416,687)	(1,412,735)
Other assets		(5,427)	(13,910)
Due to banks and other financial institutions		437,292	1,364,900
Customer deposits		705,267	379,066
Certificates of deposit issued		(253,190)	(20,112)
Other liabilities		78,382	19,163
Tax paid		(25,402)	(29,049)
Net cash from operating activities		<u>182,014</u>	<u>1,000,905</u>
<b>Investing activities</b>			
Purchase of investment securities		(1,519,601)	(1,326,478)
Proceeds from sale/redemption of investment securities		1,061,543	809,056
Dividend income		1,847	1,929
Proceeds from disposal of an associate		-	157,857
Dividend from associates		467	463
Proceeds from sale of land, premises and equipment		4,226	636
Purchase of land, premises and equipment		(39,694)	(29,566)
Net cash used in investing activities		<u>(491,212)</u>	<u>(386,103)</u>
<b>Financing activities</b>			
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		-	(977)
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		<u>53,518</u>	<u>64,374</u>
<b>(Decrease) increase in cash and short term funds</b>		<b>(255,680)</b>	<b>679,176</b>
Exchange difference on translation of foreign operations		(31,418)	(18,360)
Cash and short term funds at 1 January		3,481,371	3,131,991
<b>Cash and short term funds at 30 September</b>		<b><u>3,194,273</u></b>	<b><u>3,792,807</u></b>

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 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	-	-	-	-	-	-	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)	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Dividends paid (Note 7)	-	-	-	-	-	-	-	-	-	-	210,700
Issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(977)	(977)	210,700	-	(977)
Transaction costs on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	-	-	-	-	112
Sale of treasury shares	-	-	-	-	996	(884)	-	-	-	-	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	503,972	-	239,987	699,840	(77,799)	13,994	1,320,717	2,700,711	210,700	221,940	3,133,351
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	-	-	-	-	-	-	219,262	219,262	-	12,247	231,509
Other comprehensive income (loss)	-	-	-	-	-	-	(30,010)	(30,010)	-	12	(29,998)
Total comprehensive income	-	-	-	-	-	-	189,252	189,252	-	12,259	201,511
Issue of bonus shares (Note 7)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Issue of rights shares (Note 7)	34,396	-	-	103,188	-	-	-	-	-	-	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	-	-	-	-	-	-	250	250	-	176	426
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Issue of Perpetual Tier 1 Sukuk by a subsidiary (Note 8)	-	-	-	-	-	-	(379)	(379)	-	75,388	75,388
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	-	-	-	-	-	(604)	(604)	-	(271)	(650)
Other movements	-	-	-	-	-	-	-	-	-	(229)	(833)
At 30 September 2016	563,566	-	251,986	803,028	(77,799)	13,994	1,370,340	2,925,115	210,700	307,513	3,443,328

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 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 nine months period ended 30 September 2016 were authorised for issue in accordance with a resolution of the directors on 9 October 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 September 2015 included a pre-tax gain net of certain settlement costs amounting to KD 21,862 thousand on sale of investment in an associate.



# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2016 (Unaudited)

### 4 Provision charge for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Provision charge for credit losses – specific	8,091	8,715	15,646	27,280
Provision charge for credit losses – general	28,379	25,615	73,054	65,152
Impairment losses	5,442	2,078	19,835	14,073
	<u>41,912</u>	<u>36,408</u>	<u>108,535</u>	<u>106,505</u>

### 5 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
National labour support tax	1,601	1,657	5,337	5,678
Zakat	759	717	2,405	2,485
Contribution to Kuwait Foundation for the Advancement of Sciences	439	601	1,755	2,057
Overseas tax	3,925	4,019	11,449	16,367
	<u>6,724</u>	<u>6,994</u>	<u>20,946</u>	<u>26,587</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 September		Nine months ended 30 September	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Profit attributable to shareholders of the Bank	68,645	64,528	219,262	227,921
Less: Interest paid on Perpetual Tier 1 Capital Securities	-	-	(6,066)	-
	<u>68,645</u>	<u>64,528</u>	<u>213,196</u>	<u>227,921</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	5,539,456	5,323,489	5,407,827	5,323,379
Basic and diluted earnings per share	<u>12 fils</u>	<u>12 fils</u>	<u>39 fils</u>	<u>43 fils</u>

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

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 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 September 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 September 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 September 2016	Audited 31 December 2015	30 September 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	74,218
Weighted average market value per treasury share (fils)	652	845	854

- 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 September 2016 (Unaudited)

7 Shareholders' equity (continued)

d) Other reserves

	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	-	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	117,058	1,244,708	(84,334)	27,328	15,957	-	1,320,717
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	219,262	-	-	-	-	219,262
Other comprehensive income (loss)	-	-	(31,717)	1,707	-	-	(30,010)
Total comprehensive income (loss)	-	219,262	(31,717)	1,707	-	-	189,252
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	-	-	-	-	250	-	250
Transaction costs on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(379)	-	-	-	-	(379)
Other movements	-	(604)	-	-	-	-	(604)
At 30 September 2016	117,058	1,319,434	(111,466)	31,179	14,135	-	1,370,340

**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.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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 September 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>Nine months</i>							
Net operating income	<u>180,957</u>	<u>126,654</u>	<u>16,880</u>	<u>79,020</u>	<u>9,048</u>	<u>133,223</u>	<u>545,782</u>
Profit (loss) for the period	<u>105,089</u>	<u>100,689</u>	<u>8,675</u>	<u>29,671</u>	<u>(87,973)</u>	<u>75,358</u>	<u>231,509</u>
Total assets	<u>4,163,514</u>	<u>5,480,854</u>	<u>61,960</u>	<u>3,471,101</u>	<u>2,571,621</u>	<u>9,044,919</u>	<u>24,793,969</u>
Total liabilities	<u>4,107,524</u>	<u>2,168,262</u>	<u>7,392</u>	<u>3,056,393</u>	<u>2,353,117</u>	<u>9,657,953</u>	<u>21,350,641</u>

	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
<i>Nine months</i>							
Net operating income	<u>170,123</u>	<u>120,394</u>	<u>17,758</u>	<u>69,497</u>	<u>34,746</u>	<u>131,547</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>(51,072)</u>	<u>57,043</u>	<u>238,191</u>
Total assets	<u>3,920,884</u>	<u>5,122,703</u>	<u>57,880</u>	<u>2,978,685</u>	<u>2,331,176</u>	<u>9,365,011</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>

### 10 Commitments and contingent liabilities

	30 September 2016 KD 000's	Audited 31 December 2015 KD 000's	30 September 2015 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>76,975</u>	<u>118,367</u>	<u>162,512</u>
Letters of credit	<u>245,805</u>	<u>320,673</u>	<u>329,147</u>
Guarantees	<u>3,670,341</u>	<u>3,466,160</u>	<u>2,994,386</u>
	<u>3,993,121</u>	<u>3,905,200</u>	<u>3,486,045</u>

Irrevocable commitments to extend credit amount to KD 1,158,783 thousand (31 December 2015: KD 755,668 thousand, 30 September 2015: KD 784,862 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.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2016 (Unaudited)

### 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 83,088 thousand (31 December 2015: KD 93,456 thousand, 30 September 2015: KD 101,812 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 September 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	1,837,485	1,051,331	16,360	2,905,176
Equities and other investments	119,087	65,686	77,331	262,104
	<u>1,956,572</u>	<u>1,117,017</u>	<u>93,691</u>	<u>3,167,280</u>
Derivative financial instruments (Note 12)	-	(43,414)	-	(43,414)
	<u>-</u>	<u>(43,414)</u>	<u>-</u>	<u>(43,414)</u>
<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)
	<u>-</u>	<u>(28,944)</u>	<u>-</u>	<u>(28,944)</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2016 (Unaudited)

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

<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)

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 2016 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions/ Transfer KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 30 September 2016 KD 000's</i>	<i>Net gains in the interim condensed statement of income KD 000's</i>
Debt securities	31,686	-	14,000	(29,304)	(22)	16,360	753
Equities and other investments	79,904	(8,032)	8,403	(2,619)	(325)	77,331	2,275
	<u>111,590</u>	<u>(8,032)</u>	<u>22,403</u>	<u>(31,923)</u>	<u>(347)</u>	<u>93,691</u>	<u>3,028</u>

	<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 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
	<u>121,653</u>	<u>(3,947)</u>	<u>8,128</u>	<u>(12,179)</u>	<u>1,699</u>	<u>115,354</u>	<u>5,447</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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 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 September 2016			Audited 31 December 2015			30 September 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)	3,091	55,724	1,184,416	6,361	33,597	900,027	4,237	39,735	844,749
Interest rate swaps (others)	2,242	2,193	86,133	758	689	101,718	-	-	-
Forward foreign exchange contracts	12,212	3,042	2,079,242	9,625	11,402	1,742,618	7,571	9,289	1,780,782
	<b>17,545</b>	<b>60,959</b>	<b>3,349,791</b>	<b>16,744</b>	<b>45,688</b>	<b>2,744,363</b>	<b>11,808</b>	<b>49,024</b>	<b>2,625,531</b>

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2016 is negative KD 52,633 thousand (31 December 2015: negative KD 27,236 thousand, 30 September 2015: negative KD 35,498 thousand). Gain on the hedged fixed income financial assets amounted to KD 61,069 thousand (31 December 2015: KD 29,664 thousand, 30 September 2015: KD 34,230 thousand).



# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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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	30 September 2015	30 September 2015	30 September 2015	30 September 2015
	30 September 2016	31 December 2015	30 September 2016	31 December 2015	30 September 2016	31 December 2015					
<b>Board Members</b>											
Loans (secured)	4	4	12	11	11	11	203,586	259,355	253,828	18,886	18,886
Contingent liabilities	1	1	12	11	11	11	19,421	18,889	18,886	18	32
Credit cards	5	6	9	3	3	3	73	18	36,384	30,073	36,384
Deposits	9	9	72	67	65	65	34,299	30,073	324,760	337,443	324,760
Collateral against credit facilities	4	4	14	14	12	12	303,837	7,629	5,642	66	50
Interest and fee income							6,146	34	27	15	15
Interest expense							34	66	8,500	-	-
Purchase of equipment and other expenses							18	27	-	-	-
Sale of property acquired on settlement of debts							-	8,500	-	-	-
<b>Executive Officers</b>											
Loans	3	4	3	2	1	1	2,654	2,609	580	2	2
Contingent liabilities	5	5	-	-	-	-	2	2	64	56	64
Credit cards	13	12	3	1	1	1	67	56	3,234	3,234	3,526
Deposits	13	12	30	29	24	24	3,427	3,234	85	58	58
Interest and fee income							66	85	2	2	2
Interest expense							2	2	-	-	-

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2016 (Unaudited)

### 13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016 KD 000's	2015 KD 000's	2016 KD 000's	2015 KD 000's
Salaries and other short term benefits	1,745	1,558	5,172	4,547
Post-employment benefits	119	84	412	344
Share based compensation	123	113	345	303
	<u>1,987</u>	<u>1,755</u>	<u>5,929</u>	<u>5,194</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.