

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2013 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2013 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013 KD 000's	2012 KD 000's	2013 KD 000's	2012 KD 000's
Interest income		122,310	125,420	241,707	252,063
Interest expense		25,529	31,152	51,735	62,477
Net interest income		96,781	94,268	189,972	189,586
Murabaha and other Islamic financing income		17,825	-	35,202	-
Distribution to depositors and Murabaha costs		2,357	-	4,798	-
Net income from Islamic financing		15,468	-	30,404	-
Net interest income and net income from Islamic financing		112,249	94,268	220,376	189,586
Net fees and commissions		29,182	25,249	54,623	51,288
Investment income		12,110	1,765	14,684	3,828
Net gains from dealing in foreign currencies		6,728	5,580	13,307	11,553
Share of results of associates		4,139	3,247	8,053	7,240
Other operating income		778	238	1,397	573
Non-interest income		52,937	36,079	92,064	74,482
Net operating income		165,186	130,347	312,440	264,068
Staff expenses		31,737	24,130	59,681	46,585
Other administrative expenses		19,348	14,782	35,424	27,207
Depreciation of premises and equipment		3,622	3,366	7,334	6,420
Amortisation of intangible assets		2,379	1,014	3,276	2,026
Operating expenses		57,086	43,292	105,715	82,238
Operating profit before provision for credit losses and impairment losses		108,100	87,055	206,725	181,830
Provision charge for credit losses - specific		2,794	6,379	12,637	15,564
Provision charge for credit losses - general		44,257	28,466	45,066	27,300
Impairment losses for investment securities		856	8,099	856	8,099
Operating profit before taxation		60,193	44,111	148,166	130,867
Taxation	3	4,124	4,092	9,638	9,552
Profit for the period		56,069	40,019	138,528	121,315
Attributable to:					
Shareholders of the Bank		47,206	39,775	128,534	120,810
Non-controlling interests		8,863	244	9,994	505
		56,069	40,019	138,528	121,315
Basic and diluted earnings per share attributable to shareholders of the Bank	4	11 fils	9 fils	29 fils	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 2013 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	KD 000's	KD 000's	KD 000's	KD 000's
Profit for the period	56,069	40,019	138,528	121,315
Other comprehensive income:				
Change in fair value of investments available for sale	(12,169)	(1,085)	(7,048)	2,390
Net gains on investments available for sale transferred to consolidated statement of income	(7,884)	(854)	(10,447)	(2,074)
Impairment losses on investments available for sale transferred to consolidated statement of income	856	8,099	856	8,099
Share of other comprehensive income (loss) of associates	4,088	72	4,102	(37)
Exchange differences on translation of foreign operations	(8,241)	2,020	(22,775)	2,888
Other comprehensive (loss) income for the period included in equity	(23,350)	8,252	(35,312)	11,266
Total comprehensive income for the period	32,719	48,271	103,216	132,581
Attributable to:				
Shareholders of the Bank	23,837	48,002	93,031	132,116
Non-controlling interests	8,882	269	10,185	465
	32,719	48,271	103,216	132,581

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 2013 (Unaudited)

			(Restated) Audited	
		30 June 2013	31 December 2012	30 June 2012
	Notes	KD 000's	KD 000's	KD 000's
Assets				
Cash and short term funds		1,740,616	1,610,765	1,543,195
Central Bank of Kuwait bonds		657,185	614,152	514,385
Kuwait Government treasury bonds		305,773	356,211	405,832
Deposits with banks		1,531,547	1,203,418	837,504
Loans, advances and Islamic financing to customers		10,283,740	9,860,620	8,388,763
Investment securities		2,138,239	1,577,149	1,586,212
Investment in associates		215,954	213,175	527,587
Land, premises and equipment		189,827	191,485	176,360
Goodwill and other intangible assets	5	702,867	722,933	213,631
Other assets		163,552	142,563	110,523
Total assets		17,929,300	16,492,471	14,303,992
Liabilities				
Due to banks and other financial institutions		4,982,293	4,154,983	4,535,761
Customer deposits		10,127,551	9,507,754	7,251,094
Other liabilities		229,528	213,739	204,843
Total liabilities		15,339,372	13,876,476	11,991,698
Equity				
Share capital	6	457,117	435,349	435,349
Proposed bonus shares	6	-	21,768	-
Statutory reserve		217,675	217,675	197,886
Share premium account		699,840	699,840	699,840
Treasury shares	6	(79,113)	(79,171)	(30,811)
Treasury shares reserve		16,224	17,957	17,985
General reserve		117,058	117,058	117,058
Retained earnings		992,973	864,498	849,929
Foreign currency translation reserve		(58,365)	(35,522)	(30,163)
Cumulative changes in fair values		13,901	26,561	31,794
Share based payment reserve		13,034	12,313	11,441
Total share capital and reserves		2,390,344	2,298,326	2,300,308
Proposed cash dividend	6	-	128,189	-
Equity attributable to shareholders of the Bank		2,390,344	2,426,515	2,300,308
Non-controlling interests		199,584	189,480	11,986
Total equity		2,589,928	2,615,995	2,312,294
Total liabilities and equity		17,929,300	16,492,471	14,303,992

Mohammed Abdul Rahman Al-Bahar
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 2013 (Unaudited)

		Six months ended 30 June	
		2013	2012
	Notes	KD 000's	KD 000's
Operating activities			
Profit for the period		138,528	121,315
Adjustments for:			
Investment income		(14,684)	(3,828)
Share of results of associates		(8,053)	(7,240)
Depreciation of premises and equipment		7,334	6,420
Amortisation of intangible assets		3,276	2,026
Provision charge for credit losses		57,703	42,864
Impairment losses for investment securities		856	8,099
Share based payment reserve		801	972
Taxation	3	9,638	9,552
Operating profit before changes in operating assets and liabilities		<u>195,399</u>	<u>180,180</u>
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(43,033)	(60,007)
Kuwait Government treasury bonds		50,438	(9,528)
Deposits with banks		(328,129)	(49,987)
Loans, advances and Islamic financing to customers		(480,641)	(249,742)
Other assets		(20,989)	3,931
Due to banks and other financial institutions		827,310	225,422
Customer deposits		619,797	451,902
Other liabilities		33,915	25,633
Tax paid		(11,989)	(13,595)
Net cash from operating activities		<u>842,078</u>	<u>504,209</u>
Investing activities			
Purchase of investment securities		(952,181)	(862,788)
Proceeds from sale/redemption of investment securities		386,386	782,292
Dividend income		1,894	1,463
Acquisition of non-controlling interests		-	(731)
Dividend from associates		10,601	10,184
Increase in investment in associate		(553)	-
Proceeds from sale of land, premises and equipment		138	45
Purchase of land, premises and equipment		(5,814)	(8,624)
Net cash used in investing activities		<u>(559,529)</u>	<u>(78,159)</u>
Financing activities			
Dividends paid	6	(128,248)	(157,181)
Purchase of treasury shares		(1,872)	(57)
Proceeds from sale of treasury shares		197	243
Net cash used in financing activities		<u>(129,923)</u>	<u>(156,995)</u>
Increase in cash and short term funds		152,626	269,055
Exchange difference on translation of foreign operations		(22,775)	2,888
Cash and short term funds at 1 January		<u>1,610,765</u>	<u>1,271,252</u>
Cash and short term funds at 30 June		<u>1,740,616</u>	<u>1,543,195</u>

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 2013 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank												Non-controlling interests		Total
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total	interests	
At 1 January 2013 (As restated - Note 5)	435,349	21,768	217,675	699,840	(79,171)	17,957	117,058	864,498	(35,522)	26,561	12,313	128,189	2,426,515	189,480	2,615,995
Profit for the period	-	-	-	-	-	-	-	128,534	-	-	-	-	128,534	9,994	138,528
Other comprehensive (loss) income	-	-	-	-	-	-	-	-	(22,843)	(12,660)	-	-	(35,503)	191	(35,312)
Total comprehensive income	-	-	-	-	-	-	-	128,534	(22,843)	(12,660)	-	-	93,031	10,185	103,216
Issue of bonus shares (Note 6)	21,768	(21,768)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(59)	-	-	-	59	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(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	457,117	-	217,675	699,840	(79,113)	16,224	117,058	992,973	(58,365)	13,901	13,034	-	2,390,344	199,584	2,589,928
At 1 January 2012	395,772	39,577	197,886	699,840	(33,415)	20,403	117,058	729,601	(33,032)	23,357	10,469	157,092	2,324,608	11,965	2,336,573
Profit for the period	-	-	-	-	-	-	-	120,810	-	-	-	-	120,810	505	121,315
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	2,869	8,437	-	-	11,306	(40)	11,266
Total comprehensive income	-	-	-	-	-	-	-	120,810	2,869	8,437	-	-	132,116	465	132,581
Issue of bonus shares (Note 6)	39,577	(39,577)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(89)	-	-	-	89	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(157,181)	(157,181)	-	(157,181)
Sale of treasury shares	-	-	-	-	2,661	(2,418)	-	-	-	-	-	-	243	-	243
Purchase of treasury shares	-	-	-	-	(57)	-	-	-	-	-	-	-	(57)	-	(57)
Share based payment	-	-	-	-	-	-	-	-	-	-	972	-	972	-	972
Acquisition of non- controlling interests	-	-	-	-	-	-	-	(393)	-	-	-	-	(393)	(338)	(731)
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(106)	(106)
At 30 June 2012	435,349	-	197,886	699,840	(30,811)	17,985	117,058	849,929	(30,163)	31,794	11,441	-	2,300,308	11,986	2,312,294

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

30 June 2013 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K. (the “Bank”) and its subsidiaries (collectively the “Group”) for the six months period ended 30 June 2013 were authorised for issue in accordance with a resolution of the directors on 8 July 2013. 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 2012.

The annual consolidated financial statements for the year ended 31 December 2012 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 2012. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

The Group has adopted the following new standards which are effective from 1 January 2013:

IFRS 10 – Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control. Under IFRS 10, control is based on whether an investor has 1) power over the investee 2) exposure or rights to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

IFRS 12 – Disclosure of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders’ involvement in the activities of the consolidated entities. The Group will provide additional disclosures in the annual consolidated financial statements.

IFRS 13 – Fair Value measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

3 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	KD 000's	KD 000's	KD 000's	KD 000's
Contribution to Kuwait Foundation for the Advancement of Sciences	417	362	1,086	925
National labour support tax	606	609	2,208	2,165
Zakat	290	254	904	878
Taxation on overseas branches and subsidiaries	2,811	2,867	5,440	5,584
	<u>4,124</u>	<u>4,092</u>	<u>9,638</u>	<u>9,552</u>

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	
	2013	2012	2013	2012
	KD 000's	KD 000's	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	<u>47,206</u>	<u>39,775</u>	<u>128,534</u>	<u>120,810</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>4,488,429</u>	<u>4,538,730</u>	<u>4,488,418</u>	<u>4,538,379</u>
Basic and diluted earnings per share	<u>11 fils</u>	<u>9 fils</u>	<u>29 fils</u>	<u>27 fils</u>

Earnings per share calculations for the period ended 30 June 2012 have been adjusted to take account of the bonus shares issued in 2013.

5 Business combination

The Bank obtained control of Boubyan Bank K.S.C. during 2012 and provisional values were assigned to the identifiable assets and liabilities acquired pending finalisation of the purchase price allocation (PPA) exercise. During the period, the Bank completed the PPA exercise in accordance with requirements of IFRS 3 'Business Combinations' by allocating a portion of the provisional goodwill to various intangible assets identified and fair valuing certain tangible assets. The residual value was accounted as goodwill which represents the future economic benefits arising from assets acquired in the business combination that are not individually identified and separately recognised.

Intangible assets identified were Islamic Banking license and brand amounting to KD 158,623 thousand with indefinite useful life and customer relationship and core deposits amounting to KD 24,707 thousand with useful life of 15 years. The fair value of net assets acquired have been adjusted by reducing the Islamic financing to customers by KD 13,802 thousand, Investment securities by KD 2,701 thousand and other assets by KD 3,444 thousand. The fair value of other assets and liabilities (including contingent liabilities) acquired, do not materially differ from their provisionally determined carrying values. The impact of above adjustments have resulted in decrease in goodwill by KD 95,399 thousand and increase in non-controlling interests by KD 67,984 thousand. The comparative numbers in the interim condensed consolidated statement of financial position presented for 31 December 2012 have been restated to reflect the above fair value adjustments. The impact of restatement on the interim condensed consolidated statement of income is not material, and therefore the same has been recognised in the current period.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

6 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 4,571,172,506 shares (31 December 2012: 4,353,497,625 shares and 30 June 2012: 4,353,497,625 shares) of 100 fils each.

b) Treasury shares

	30 June 2013	Audited 31 December 2012	30 June 2012
Number of treasury shares	84,469,085	80,527,958	30,855,082
Treasury shares as a percentage of total shares in issue	1.8%	1.8%	0.7%
Cost of treasury shares (KD thousand)	79,113	79,171	30,811
Market value of treasury shares (KD thousand)	79,401	77,307	31,472

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 9 March 2013 approved 5% bonus shares (2011: 10%) and a cash dividend of 30 fils per share (2011: 40 fils per share) for the year ended 31 December 2012. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 217,674,881 (2011: 395,772,511) and share capital by KD 21,768 thousand (2011: KD 39,577 thousand).

7 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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

7 Segmental analysis (continued)

Islamic Banking

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

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 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 Center KD 000's	International KD 000's	Total KD 000's
Net operating income	<u>99,815</u>	<u>81,417</u>	<u>13,315</u>	<u>31,908</u>	<u>19,511</u>	<u>66,474</u>	<u>312,440</u>
Profit for the Period	<u>58,070</u>	<u>23,814</u>	<u>7,811</u>	<u>6,706</u>	<u>7,454</u>	<u>34,673</u>	<u>138,528</u>
Total assets	<u>3,205,787</u>	<u>4,204,123</u>	<u>54,204</u>	<u>1,987,768</u>	<u>2,661,124</u>	<u>5,816,294</u>	<u>17,929,300</u>
	30 June 2012						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Center KD 000's	International KD 000's	Total KD 000's	
Net operating income	<u>94,812</u>	<u>85,285</u>	<u>13,186</u>	<u>6,842</u>	<u>63,943</u>	<u>264,068</u>	
Profit (loss) for the period	<u>58,926</u>	<u>59,845</u>	<u>7,172</u>	<u>(39,020)</u>	<u>34,392</u>	<u>121,315</u>	
Total assets	<u>2,977,543</u>	<u>4,283,065</u>	<u>65,479</u>	<u>1,878,406</u>	<u>5,099,499</u>	<u>14,303,992</u>	

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

8 Commitments and contingent liabilities

	30 June 2013 KD 000's	Audited 31 December 2012 KD 000's	30 June 2012 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	64,613	85,689	84,594
Letters of credit	340,961	307,416	255,996
Guarantees	2,074,288	2,067,690	1,767,370
	<u>2,479,862</u>	<u>2,460,795</u>	<u>2,107,960</u>

Irrevocable commitments to extend credit amount to KD 369,740 thousand (31 December 2012: KD 318,110 thousand , 30 June 2012: KD 195,562 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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

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

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

The fair value of interest rate swaps and forward foreign exchange contracts included in the financial records, together with their notional amounts is summarised as follows:

	30 June 2013			Audited 31 December 2012			30 June 2012		
	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)	5,744	11,894	321,961	21	14,348	136,480	9	16,820	167,319
Interest rate swaps (others)	-	-	-	-	-	-	36	36	56,040
Forward foreign exchange contracts	4,425	2,725	984,538	12,508	3,082	895,735	4,318	3,559	882,994
	10,169	14,619	1,306,499	12,529	17,430	1,032,215	4,363	20,415	1,106,353

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2013 is negative KD 6,150 thousand (31 December 2012: negative KD 14,327 thousand, 30 June 2012: negative KD 16,811 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 5,422 thousand (31 December 2012: KD 15,131 thousand 30 June 2012: KD 14,940 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

10 Related party transactions

Certain related parties (directors and executive officers of the Bank, companies which they control and entities associated with the Group) were customers of the Bank and its subsidiaries in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. In accordance with Central Bank of Kuwait regulations regarding lending to Board Members and their related parties, such lending is secured by tangible collateral.

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

	Number of Board Members or Executive Officers			Number of related parties			30 June 2013	31 December 2012	30 June 2012
	30 June 2013	31 December 2012	30 June 2012	30 June 2013	31 December 2012	30 June 2012			
							KD 000's	Audited KD 000's	KD 000's
Board Members and related parties									
Loans (secured)	3	4	3	13	12	13	196,793	204,469	209,038
Contingent liabilities	1	1	1	12	12	12	17,836	13,446	17,352
Credit cards	6	8	9	2	2	2	47	28	97
Deposits	9	9	9	12	14	14	23,073	22,726	39,339
Collateral against credit facilities	4	4	4	15	15	15	371,293	362,293	395,312
Interest and fee income							3,288	7,607	4,474
Interest expense							38	360	320
Executive Officers									
Loans	9	9	8	-	-	-	519	460	773
Contingent liabilities	2	2	1	-	-	-	6	6	6
Credit cards	4	5	5	-	-	-	8	6	33
Deposits	15	16	16	-	-	-	1,457	1,405	1,792
Interest and fee income							3	2	10
Interest expense							6	17	7
Associates									
Placements							216,433	195,268	147,199
Acceptances							1,612	544	35,697

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2013 (Unaudited)

11 Key management compensation

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

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	2013	2012
	KD 000's	KD 000's	KD 000's	KD 000's
Salaries and other short term benefits	3,318	3,079	6,400	5,848
Post-employment benefits	305	318	705	508
Share based compensation	247	283	365	564
	3,870	3,680	7,470	6,920

12 Family support fund

During the period, CBK issued its Circular No. 2/RB, RB, ARS/306/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 106/2013. The Fund shall purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. The Bank is currently in the process of identifying such loans and submitting its report to CBK.