

**NATIONAL BANK OF KUWAIT GROUP**

**INTERIM CONDENSED CONSOLIDATED  
FINANCIAL INFORMATION**

**31 MARCH 2015 (UNAUDITED)**

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2015 (Unaudited)

	Notes	Three months ended 31 March	
		2015 KD 000's	2014 KD 000's
Interest income		136,993	124,725
Interest expense		30,547	26,851
<b>Net interest income</b>		<b>106,446</b>	<b>97,874</b>
Murabaha and other Islamic financing income		24,340	19,504
Distribution to depositors and Murabaha costs		5,518	3,233
<b>Net income from Islamic financing</b>		<b>18,822</b>	<b>16,271</b>
<b>Net interest income and net income from Islamic financing</b>		<b>125,268</b>	<b>114,145</b>
Net fees and commissions		30,748	29,192
Net investment income	5	30,234	3,540
Net gains from dealing in foreign currencies		7,447	6,087
Share of results of associates		247	4,700
Other operating income		589	783
<b>Non-interest income</b>		<b>69,265</b>	<b>44,302</b>
<b>Net operating income</b>		<b>194,533</b>	<b>158,447</b>
Staff expenses		30,903	29,008
Other administrative expenses		17,571	16,688
Depreciation of premises and equipment		3,806	3,746
Amortisation of intangible assets		1,250	1,272
<b>Operating expenses</b>		<b>53,530</b>	<b>50,714</b>
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>141,003</b>	<b>107,733</b>
Provision charge for credit losses – specific		8,718	3,243
Provision charge for credit losses – general		12,848	12,365
Impairment losses		7,323	91
<b>Operating profit before taxation</b>		<b>112,114</b>	<b>92,034</b>
Taxation	3	12,567	6,066
<b>Profit for the period</b>		<b>99,547</b>	<b>85,968</b>
<b>Attributable to:</b>			
Shareholders of the Bank		96,518	83,935
Non-controlling interests		3,029	2,033
		<b>99,547</b>	<b>85,968</b>
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	4	<b>20 fils</b>	<b>17 fils</b>

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2015 (Unaudited)

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2015</b>	2014
	<b>KD 000's</b>	KD 000's
<b>Profit for the period</b>	<b>99,547</b>	85,968
<b>Other comprehensive income:</b>		
Net gains on investments available for sale transferred to consolidated statement of income	<b>(1,512)</b>	(1,991)
Impairment losses on investments available for sale transferred to consolidated statement of income	<b>1,923</b>	91
Change in fair value of investments available for sale	<b>9,617</b>	17,023
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	<b>(8,471)</b>	-
Share of other comprehensive income of associates	<b>(19)</b>	(503)
Exchange differences on translation of foreign operations	<b>(6,425)</b>	1,305
<b>Other comprehensive (loss) income for the period reclassifiable to consolidated statement of income in subsequent periods</b>	<b>(4,887)</b>	15,925
<b>Total comprehensive income for the period</b>	<b>94,660</b>	101,893
<b>Attributable to:</b>		
Shareholders of the Bank	<b>91,535</b>	98,800
Non-controlling interests	<b>3,125</b>	3,093
	<b>94,660</b>	101,893

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2015 (Unaudited)

		Audited	
		31 December	31 March
		2014	2014
	Notes	KD 000's	KD 000's
<b>Assets</b>			
Cash and short term funds		3,131,991	3,539,345
Central Bank of Kuwait bonds		534,688	711,049
Kuwait Government treasury bonds		344,529	340,620
Deposits with banks		2,050,515	1,197,229
Loans, advances and Islamic financing to customers		11,908,708	10,954,391
Investment securities		2,493,693	2,432,362
Investment in associates		119,398	255,525
Land, premises and equipment		203,414	193,202
Goodwill and other intangible assets		696,416	698,389
Other assets		162,371	178,741
Investment in an associate held for sale	5	138,408	-
<b>Total assets</b>		<b>21,784,131</b>	<b>20,500,853</b>
<b>Liabilities</b>			
Due to banks and other financial institutions		6,705,717	6,085,982
Customer deposits		11,259,736	11,120,701
Certificates of deposit issued		675,065	354,795
Other liabilities		273,073	256,160
<b>Total liabilities</b>		<b>18,913,591</b>	<b>17,817,638</b>
<b>Equity</b>			
Share capital	6	479,973	479,973
Proposed bonus shares	6	23,999	-
Statutory reserve		239,987	228,559
Share premium account		699,840	699,840
Treasury shares	6	(78,795)	(78,795)
Treasury shares reserve		14,878	14,878
Other reserves	6	1,273,389	1,128,864
Equity attributable to shareholders of the Bank		2,653,271	2,473,319
Non-controlling interests		217,269	209,896
<b>Total equity</b>		<b>2,870,540</b>	<b>2,683,215</b>
<b>Total liabilities and equity</b>		<b>21,784,131</b>	<b>20,500,853</b>

Nasser Musaed Abdullah Al-Sayer  
Chairman

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2015 (Unaudited)

	Notes	Three months ended 31 March	
		2015 KD 000's	2014 KD 000's
<b>Operating activities</b>			
Profit for the period		99,547	85,968
Adjustments for:			
Net investment income		(30,234)	(3,540)
Share of results of associates		(247)	(4,700)
Depreciation of premises and equipment		3,806	3,746
Amortisation of intangible assets		1,250	1,272
Provision charge for credit losses		21,566	15,608
Impairment losses		7,323	91
Share based payment reserve		437	316
Taxation	3	12,567	6,066
Operating profit before changes in operating assets and liabilities		116,015	104,827
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(64,355)	(176,590)
Kuwait Government treasury bonds		4,459	(20,372)
Deposits with banks		(103,018)	(297,557)
Loans, advances and Islamic financing to customers		(481,388)	(275,700)
Other assets		(10,387)	57,389
Due to banks and other financial institutions		1,226,534	1,141,117
Customer deposits		426,749	642,653
Certificates of deposit issued		(73,814)	113,811
Other liabilities		17,349	35,691
Tax paid		(12,142)	(8,000)
Net cash from operating activities		1,046,002	1,317,269
<b>Investing activities</b>			
Purchase of investment securities		(496,353)	(213,143)
Proceeds from sale/redemption of investment securities		247,439	148,077
Dividend income		963	1,451
Proceeds from disposal of an associate		157,857	-
Dividend from associates		-	11,525
Proceeds from sale of land, premises and equipment		85	451
Purchase of land, premises and equipment		(10,677)	(5,200)
Net cash used in investing activities		(100,686)	(56,839)
<b>Financing activities</b>			
Dividends paid	6	(141,374)	(134,610)
Proceeds from sale of treasury shares		112	161
Dividend paid by a subsidiary to non-controlling interests		(4,087)	-
Net cash used in financing activities		(145,349)	(134,449)
<b>Increase in cash and short term funds</b>		<b>799,967</b>	<b>1,125,981</b>
Exchange difference on translation of foreign operations		(6,425)	1,305
Cash and short term funds at 1 January		3,131,991	2,412,059
<b>Cash and short term funds at 31 March</b>		<b>3,925,533</b>	<b>3,539,345</b>

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

# National Bank of Kuwait Group

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2015 (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 6)	Total		
At 1 January 2014	457,117	22,856	228,559	699,840	(80,302)	16,224	1,164,550	2,508,844	202,950	2,711,794
Profit for the period	-	-	-	-	-	-	83,935	83,935	2,033	85,968
Other comprehensive income	-	-	-	-	-	-	14,865	14,865	1,060	15,925
Total comprehensive income	-	-	-	-	-	-	98,800	98,800	3,093	101,893
Issue of bonus shares (Note 6)	22,856	(22,856)	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(134,610)	(134,610)	-	(134,610)
Sale of treasury shares	-	-	-	-	1,507	(1,346)	-	161	-	161
Share based payment	-	-	-	-	-	-	192	192	(17)	175
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	3,723	3,723
Change in effective holding in a subsidiary	-	-	-	-	-	-	(68)	(68)	147	79
At 31 March 2014	<u>479,973</u>	<u>-</u>	<u>228,559</u>	<u>699,840</u>	<u>(78,795)</u>	<u>14,878</u>	<u>1,128,864</u>	<u>2,473,319</u>	<u>209,896</u>	<u>2,683,215</u>
At 1 January 2015	<b>479,973</b>	<b>23,999</b>	<b>239,987</b>	<b>699,840</b>	<b>(78,795)</b>	<b>14,878</b>	<b>1,273,389</b>	<b>2,653,271</b>	<b>217,269</b>	<b>2,870,540</b>
Profit for the period	-	-	-	-	-	-	<b>96,518</b>	<b>96,518</b>	<b>3,029</b>	<b>99,547</b>
Other comprehensive (loss) income	-	-	-	-	-	-	<b>(4,983)</b>	<b>(4,983)</b>	<b>96</b>	<b>(4,887)</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>91,535</b>	<b>91,535</b>	<b>3,125</b>	<b>94,660</b>
Issue of bonus shares (Note 6)	<b>23,999</b>	<b>(23,999)</b>	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	<b>(141,374)</b>	<b>(141,374)</b>	-	<b>(141,374)</b>
Sale of treasury shares	-	-	-	-	<b>995</b>	<b>(883)</b>	-	<b>112</b>	-	<b>112</b>
Share based payment	-	-	-	-	-	-	<b>382</b>	<b>382</b>	<b>55</b>	<b>437</b>
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	<b>(4,087)</b>	<b>(4,087)</b>
Change in effective holding in a subsidiary	-	-	-	-	-	-	<b>(20)</b>	<b>(20)</b>	<b>70</b>	<b>50</b>
At 31 March 2015	<u><b>503,972</b></u>	<u><b>-</b></u>	<u><b>239,987</b></u>	<u><b>699,840</b></u>	<u><b>(77,800)</b></u>	<u><b>13,995</b></u>	<u><b>1,223,912</b></u>	<u><b>2,603,906</b></u>	<u><b>216,432</b></u>	<u><b>2,820,338</b></u>

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2015 (Unaudited)

### 1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) for the three months period ended 31 March 2015 were authorised for issue in accordance with a resolution of the directors on 7 April 2015. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank with the Central Bank of Kuwait. The Bank’s registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait.

### 2 Accounting policies

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2014.

The annual consolidated financial statements for the year ended 31 December 2014 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39, ‘Financial Instruments: Recognition and Measurement’, requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2014. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2015.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2015 did not have any material impact on the accounting policies, financial position or performance of the Group.

### 3 Taxation

	Three months ended 31 March	
	2015	2014
	KD 000’s	KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	823	696
National labour support tax	2,400	1,637
Zakat	1,033	633
Overseas tax	8,311	3,100
	<u>12,567</u>	<u>6,066</u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2015 (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 31 March	
	2015	2014
	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	<u>96,518</u>	<u>83,935</u>
Weighted average number of shares outstanding during the period, net of treasury shares (thousands)	<u>4,947,781</u>	<u>4,946,330</u>
Basic and diluted earnings per share	<u>20 fils</u>	<u>17 fils</u>

Earnings per share calculations for the period ended 31 March 2014 have been adjusted to take account of the bonus shares issued in 2015.

### 5 Investment in an associate held for sale

During 2014, the Bank entered into an agreement to sell its 30% equity interest in International Bank of Qatar Q.S.C. for a sales consideration of KD 157,857 thousand. The investment was accordingly reclassified as an associate held for sale in the consolidated statement of financial position as at 31 December 2014.

During the period, the Bank concluded the sale transaction and recognised a pre-tax gain amounting to KD 27,920 thousand, inclusive of other comprehensive income amounting to KD 8,471 thousand. This amount is included under net investment income in the interim condensed consolidated statement of income.

### 6 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 5,039,717,687 shares (31 December 2014: 4,799,731,131 shares and 31 March 2014: 4,799,731,131 shares) of 100 fils each.

b) Treasury shares

	31 March 2015	Audited 31 December 2014	31 March 2014
Number of treasury shares	<b>91,628,448</b>	88,381,436	88,381,436
Treasury shares as a percentage of total shares in issue	<b>1.8%</b>	1.8%	1.8%
Cost of treasury shares (KD thousand)	<b>77,800</b>	78,795	78,795
Market value of treasury shares (KD thousand)	<b>73,303</b>	80,427	87,498
Weighted average market value per treasury share (fils)	<b>895</b>	960	944

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 7 March 2015 approved 5% bonus shares (2013: 5%) and a cash dividend of 30 fils per share (2013: 30 fils per share) for the year ended 31 December 2014. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 239,986,556 (2013: 228,558,625) and share capital by KD 23,999 thousand (2013: KD 22,856 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

31 March 2015 (Unaudited)

**6 Shareholders' equity (continued)**

## d) Other reserves

	<i>General reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Cumulative changes in fair values</i>	<i>Share based payment reserve</i>	<i>Proposed cash dividend</i>	<i>Total other reserves</i>
At 1 January 2014	117,058	934,274	(69,766)	34,819	13,603	134,562	1,164,550
Profit for the period	-	83,935	-	-	-	-	83,935
Other comprehensive income	-	-	321	14,544	-	-	14,865
<b>Total comprehensive income</b>	<b>-</b>	<b>83,935</b>	<b>321</b>	<b>14,544</b>	<b>-</b>	<b>-</b>	<b>98,800</b>
Dividends paid	-	-	-	-	-	(134,610)	(134,610)
Dividends on treasury shares sold	-	(48)	-	-	-	48	-
Share based payment	-	-	-	-	192	-	192
Change in effective holding in a subsidiary	-	(68)	-	-	-	-	(68)
At 31 March 2014	<u>117,058</u>	<u>1,018,093</u>	<u>(69,445)</u>	<u>49,363</u>	<u>13,795</u>	<u>-</u>	<u>1,128,864</u>
<b>At 1 January 2015</b>	<b>117,058</b>	<b>1,017,780</b>	<b>(61,497)</b>	<b>43,875</b>	<b>14,833</b>	<b>141,340</b>	<b>1,273,389</b>
Profit for the period	-	96,518	-	-	-	-	<b>96,518</b>
Other comprehensive (loss) income	-	-	(12,220)	7,237	-	-	<b>(4,983)</b>
<b>Total comprehensive income (loss)</b>	<b>-</b>	<b>96,518</b>	<b>(12,220)</b>	<b>7,237</b>	<b>-</b>	<b>-</b>	<b>91,535</b>
Dividends paid	-	-	-	-	-	(141,374)	<b>(141,374)</b>
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Share based payment	-	-	-	-	382	-	<b>382</b>
Change in effective holding in a subsidiary	-	(20)	-	-	-	-	<b>(20)</b>
At 31 March 2015	<u><b>117,058</b></u>	<u><b>1,114,244</b></u>	<u><b>(73,717)</b></u>	<u><b>51,112</b></u>	<u><b>15,215</b></u>	<u><b>-</b></u>	<u><b>1,223,912</b></u>

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2015 (Unaudited)

### 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.

#### Islamic Banking

Islamic banking represents the financial results of Boubyan Bank K.S.C.P., the Islamic banking subsidiary of the Group.

#### Group Centre

Group Centre includes treasury, investments, and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the Bank's liquidity and market risk management. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

#### International

International includes all branches, subsidiaries and associates outside Kuwait.

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

	31 March 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>Three months</i>							
Net operating income	55,223	39,057	5,270	22,063	30,566	42,354	194,533
Profit for the period	34,101	30,925	2,330	7,359	6,599	18,233	99,547
Total assets	3,607,450	5,005,305	62,969	2,772,659	2,582,493	9,291,280	23,322,156
Total liabilities	4,022,422	2,161,007	5,789	2,473,660	2,139,707	9,699,233	20,501,818

# National Bank of Kuwait Group

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2015 (Unaudited)

### 7 Segmental analysis (continued)

	31 March 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
<i>Three months</i>							
Net operating income	51,993	39,031	5,465	18,714	5,970	37,274	158,447
Profit (loss) for the period	35,923	34,135	2,679	5,690	(12,577)	20,118	85,968
Total assets	3,366,692	4,637,097	63,841	2,329,128	2,411,890	7,692,205	20,500,853
Total liabilities	3,760,770	1,996,567	6,032	2,052,063	2,192,964	7,809,242	17,817,638

### 8 Commitments and contingent liabilities

	31 March 2015 KD 000's	Audited 31 December 2014 KD 000's	31 March 2014 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	133,128	116,379	107,781
Letters of credit	330,330	302,231	290,832
Guarantees	2,559,076	2,457,116	2,466,239
	<b>3,022,534</b>	<b>2,875,726</b>	<b>2,864,852</b>

Irrevocable commitments to extend credit amount to KD 602,614 thousand (31 December 2014: KD 644,854 thousand, 31 March 2014: KD 487,285 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

31 March 2015 (Unaudited)

### 9 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>31 March 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	1,433,010	911,349	34,482	2,378,841
Equities and other investments	130,085	65,480	88,680	284,245
	<u>1,563,095</u>	<u>976,829</u>	<u>123,162</u>	<u>2,663,086</u>
Derivative financial instruments (Note 10)	-	(23,776)	-	(23,776)
<i>31 December 2014</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	1,297,935	747,294	39,089	2,084,318
Equities and other investments	132,225	79,704	82,564	294,493
	<u>1,430,160</u>	<u>826,998</u>	<u>121,653</u>	<u>2,378,811</u>
Derivative financial instruments (Note 10)	-	(27,494)	-	(27,494)
<i>31 March 2014</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	1,280,162	709,378	44,113	2,033,653
Equities and other investments	182,747	41,520	89,531	313,798
	<u>1,462,909</u>	<u>750,898</u>	<u>133,644</u>	<u>2,347,451</u>
Derivative financial instruments (Note 10)	-	(1,921)	-	(1,921)

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

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

	<i>At 1 January 2015 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions/ transfers KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2015 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	<b>39,089</b>	-	-	<b>(4,494)</b>	<b>(113)</b>	<b>34,482</b>	<b>445</b>
Equities and other investments	<b>82,564</b>	<b>(1,332)</b>	<b>7,612</b>	<b>(1,459)</b>	<b>1,295</b>	<b>88,680</b>	<b>1,255</b>
	<b>121,653</b>	<b>(1,332)</b>	<b>7,612</b>	<b>(5,953)</b>	<b>1,182</b>	<b>123,162</b>	<b>1,700</b>

	<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 31 March 2014 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	44,900	-	-	(880)	93	44,113	503
Equities and other investments	89,619	1,165	-	(1,073)	(180)	89,531	1,171
	134,519	1,165	-	(1,953)	(87)	133,644	1,674

### 10 Derivative financial instruments

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

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

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

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### 10 Derivative financial instruments (continued)

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

#### Interest rate swaps

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

#### Forward foreign exchange

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

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

	31 March 2015			Audited 31 December 2014			31 March 2014		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	6,984	29,737	706,576	4,643	25,881	667,768	5,992	10,879	390,169
Forward foreign exchange contracts	16,021	17,044	1,808,306	6,198	12,454	1,359,531	4,714	1,748	1,395,891
	<b>23,005</b>	<b>46,781</b>	<b>2,514,882</b>	<b>10,841</b>	<b>38,335</b>	<b>2,027,299</b>	<b>10,706</b>	<b>12,627</b>	<b>1,786,060</b>

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2015 is negative KD 22,753 thousand (31 December 2014: negative KD 21,238 thousand, 31 March 2014: negative KD 4,887 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 35,875 thousand (31 December 2014: KD 28,344 thousand, 31 March 2014: KD 10,118 thousand).

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**11 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			31 March 2015	31 December 2014	31 March 2014
	31 March 2015	31 December 2014	31 March 2014	31 March 2015	31 December 2014	31 March 2014			
							KD 000's	Audited KD 000's	KD 000's
<b>Board Members</b>									
Loans (secured)	4	4	4	10	9	17	206,350	195,562	186,368
Contingent liabilities	1	1	2	12	11	13	25,627	12,495	25,239
Credit cards	5	6	8	5	5	10	51	62	64
Deposits	9	8	9	63	65	64	41,674	25,010	29,849
Collateral against credit facilities	4	4	4	12	11	15	291,562	293,532	372,516
Interest and fee income							1,934	6,718	1,593
Interest expense							18	73	17
Purchase of equipment and other expenses							3	431	6
Sale of property acquired on settlement of debts							-	18,000	-
Gain on sale of property acquired on settlement of debts							-	969	-
<b>Executive Officers</b>									
Loans	4	3	5	1	1	2	241	185	1,030
Contingent liabilities	5	5	3	-	-	-	2	2	2
Credit cards	12	11	12	-	-	2	32	30	28
Deposits	11	11	13	26	19	18	3,264	2,056	1,551
Interest and fee income							18	46	13
Interest expense							1	-	-
<b>Associates</b>									
Placements							-	174,151	40,092
Acceptances							-	-	153

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31 March 2015 (Unaudited)

**12 Key management compensation**

Details of compensation to key management personnel are as follows:

	<b>Three months ended 31 March</b>	
	<b>2015</b>	2014
	<b>KD 000's</b>	KD 000's
Salaries and other short term benefits	<b>1,460</b>	1,522
Post-employment benefits	<b>162</b>	66
Share based compensation	<b>101</b>	64
	<u><b>1,723</b></u>	<u>1,652</u>

**13 Subsequent event**

The Bank plans to issue Perpetual Tier 1 Capital Securities (the "Capital Securities") on 9 April 2015, through a wholly owned special purpose vehicle, amounting to USD 700,000 thousand which are eligible to be classified under equity. The Capital Securities are subordinated, unsecured and carry an interest rate of 5.75% per annum, payable semi-annually in arrears, until the first call date in April 2021. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date in April 2021 and on every interest payment date thereafter, subject to certain conditions.