

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2017 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2017 (Unaudited)

| | Notes | Three months ended 30 June | | Six months ended 30 June | |
|--|-------|----------------------------|------------------|--------------------------|------------------|
| | | 2017 KD 000's | 2016 KD 000's | 2017 KD 000's | 2016 KD 000's |
| Interest income | | 185,631 | 162,688 | 353,862 | 318,410 |
| Interest expense | | 55,222 | 47,075 | 101,843 | 89,131 |
| Net interest income | | 130,409 | 115,613 | 252,019 | 229,279 |
| Murabaha and other Islamic financing income | | 38,151 | 31,171 | 74,088 | 61,078 |
| Finance cost and Distribution to depositors | | 10,891 | 8,336 | 20,894 | 15,286 |
| Net income from Islamic financing | | 27,260 | 22,835 | 53,194 | 45,792 |
| Net interest income and net income from Islamic financing | | 157,669 | 138,448 | 305,213 | 275,071 |
| Net fees and commissions | | 33,678 | 33,414 | 67,321 | 66,824 |
| Net investment income | | 4,916 | 2,583 | 10,049 | 4,050 |
| Net gains from dealing in foreign currencies | | 6,781 | 8,206 | 14,811 | 15,605 |
| Other operating income | | 388 | 240 | 1,419 | 579 |
| Non-interest income | | 45,763 | 44,443 | 93,600 | 87,058 |
| Net operating income | | 203,432 | 182,891 | 398,813 | 362,129 |
| Staff expenses | | 37,740 | 37,712 | 74,263 | 71,617 |
| Other administrative expenses | | 21,751 | 21,199 | 41,940 | 40,698 |
| Depreciation of premises and equipment | | 3,868 | 4,099 | 7,875 | 8,148 |
| Amortisation of intangible assets | | 781 | 1,134 | 1,573 | 2,332 |
| Operating expenses | | 64,140 | 64,144 | 125,651 | 122,795 |
| Operating profit before provision for credit losses and impairment losses | | 139,292 | 118,747 | 273,162 | 239,334 |
| Provision charge for credit losses and impairment losses | 3 | 48,111 | 35,706 | 85,848 | 66,623 |
| Operating profit before taxation | | 91,181 | 83,041 | 187,314 | 172,711 |
| Taxation | 4 | 6,951 | 7,256 | 13,366 | 14,222 |
| Profit for the period | | 84,230 | 75,785 | 173,948 | 158,489 |
| Attributable to: | | | | | |
| Shareholders of the Bank | | 79,336 | 71,682 | 164,691 | 150,617 |
| Non-controlling interests | | 4,894 | 4,103 | 9,257 | 7,872 |
| | | 84,230 | 75,785 | 173,948 | 158,489 |
| Basic earnings per share attributable to shareholders of the Bank | 5 | 12 fils | 12 fils | 27 fils | 26 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 2017 (Unaudited)

| | Three months ended 30 June | | Six months ended 30 June | |
|--|-------------------------------|------------------|-----------------------------|------------------|
| | 2017 KD 000's | 2016 KD 000's | 2017 KD 000's | 2016 KD 000's |
| Profit for the period | 84,230 | 75,785 | 173,948 | 158,489 |
| Other comprehensive income: | | | | |
| Investments available for sale: | | | | |
| Net change in fair value | (12,167) | (3,424) | 5,790 | (13,889) |
| Net transfer to consolidated statement of income | (3,709) | 1,576 | (7,101) | 5,823 |
| | (15,876) | (1,848) | (1,311) | (8,066) |
| Share of other comprehensive income (loss) of associates | 81 | (302) | 231 | (322) |
| Exchange differences on translation of foreign operations | (5,530) | (707) | 3,268 | (31,300) |
| Other comprehensive (loss) income for the period reclassifiable to consolidated statement of income in subsequent periods | (21,325) | (2,857) | 2,188 | (39,688) |
| Total comprehensive income for the period | 62,905 | 72,928 | 176,136 | 118,801 |
| Attributable to: | | | | |
| Shareholders of the Bank | 58,152 | 69,271 | 166,707 | 111,309 |
| Non-controlling interests | 4,753 | 3,657 | 9,429 | 7,492 |
| | 62,905 | 72,928 | 176,136 | 118,801 |

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 2017 (Unaudited)

| | | Audited | |
|--|-------------------|-------------------|-------------------|
| | 30 June | 31 December | 30 June |
| | 2017 | 2016 | 2016 |
| Notes | KD 000's | KD 000's | KD 000's |
| Assets | | | |
| Cash and short term funds | 2,635,984 | 2,686,963 | 2,938,320 |
| Central Bank of Kuwait bonds | 769,534 | 748,889 | 752,944 |
| Kuwait Government treasury bonds | 843,887 | 493,101 | 435,891 |
| Deposits with banks | 2,458,429 | 2,407,915 | 2,031,959 |
| Loans, advances and Islamic financing to customers | 14,326,618 | 13,611,491 | 13,702,903 |
| Investment securities | 3,299,455 | 3,174,632 | 3,009,387 |
| Investment in associates | 66,478 | 73,644 | 84,505 |
| Land, premises and equipment | 270,421 | 255,086 | 243,114 |
| Goodwill and other intangible assets | 582,647 | 581,840 | 656,975 |
| Other assets | 199,070 | 170,508 | 211,311 |
| Total assets | 25,452,523 | 24,204,069 | 24,067,309 |
| Liabilities | | | |
| Due to banks and other financial institutions | 7,168,481 | 7,347,803 | 7,025,317 |
| Customer deposits | 13,568,665 | 12,608,092 | 12,559,944 |
| Certificates of deposit issued | 636,989 | 415,989 | 714,458 |
| Global medium term notes | 225,504 | - | - |
| Subordinated Tier 2 bonds | 124,717 | 124,700 | 124,684 |
| Other liabilities | 327,327 | 302,753 | 281,540 |
| Total liabilities | 22,051,683 | 20,799,337 | 20,705,943 |
| Equity | | | |
| Share capital | 7 591,744 | 563,566 | 563,566 |
| Proposed bonus shares | 7 - | 28,178 | - |
| Statutory reserve | 281,783 | 281,783 | 251,986 |
| Share premium account | 803,028 | 803,028 | 803,028 |
| Treasury shares | 7 (77,799) | (77,799) | (77,799) |
| Treasury shares reserve | 13,994 | 13,994 | 13,994 |
| Other reserves | 7 1,264,765 | 1,271,813 | 1,292,901 |
| Equity attributable to shareholders of the Bank | 2,877,515 | 2,884,563 | 2,847,676 |
| Perpetual Tier 1 capital securities | 210,700 | 210,700 | 210,700 |
| Non-controlling interests | 312,625 | 309,469 | 302,990 |
| Total equity | 3,400,840 | 3,404,732 | 3,361,366 |
| Total liabilities and equity | 25,452,523 | 24,204,069 | 24,067,309 |

Ghassan Ahmed Saoud Al Khalid
Vice Chairman

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2017 (Unaudited)

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------|------------------|
| | | 2017 KD 000's | 2016 KD 000's |
| Operating activities | | | |
| Profit for the period | | 173,948 | 158,489 |
| Adjustments for: | | | |
| Net investment income | | (10,049) | (4,050) |
| Depreciation of premises and equipment | | 7,875 | 8,148 |
| Amortisation of intangible assets | | 1,573 | 2,332 |
| Provision charge for credit losses and impairment losses | 3 | 85,848 | 66,623 |
| Share based payment reserve | | 183 | 288 |
| Taxation | 4 | 13,366 | 14,222 |
| Operating profit before changes in operating assets and liabilities | | 272,744 | 246,052 |
| Changes in operating assets and liabilities: | | | |
| Central Bank of Kuwait bonds | | (20,645) | 50,986 |
| Kuwait Government treasury bonds | | (350,786) | (55,839) |
| Deposits with banks | | (50,514) | (605,280) |
| Loans, advances and Islamic financing to customers | | (791,549) | (205,870) |
| Other assets | | (28,562) | (37,821) |
| Due to banks and other financial institutions | | (179,322) | (281,150) |
| Customer deposits | | 960,573 | 500,741 |
| Certificates of deposit issued | | 221,000 | 59,201 |
| Other liabilities | | 31,705 | 14,374 |
| Tax paid | | (21,478) | (20,518) |
| Net cash from (used in) operating activities | | 43,166 | (335,124) |
| Investing activities | | | |
| Purchase of investment securities | | (925,369) | (1,028,482) |
| Proceeds from sale/redemption of investment securities | | 807,133 | 789,749 |
| Dividend income | | 1,458 | 1,593 |
| Dividend from associates | | 35 | 456 |
| Proceeds from sale of land, premises and equipment | | 907 | 3,382 |
| Purchase of land, premises and equipment | | (24,117) | (28,143) |
| Net cash used in investing activities | | (139,953) | (261,445) |
| Financing activities | | | |
| Net proceeds from issuance of Global medium term notes | 6 | 226,108 | - |
| Proceeds from issuance of rights shares | | - | 137,584 |
| Net proceeds from issue of Perpetual Tier 1 sukuk by a subsidiary | | - | 74,738 |
| Dividends paid | | (166,184) | (148,443) |
| Interest paid on Perpetual Tier 1 capital securities | | (6,146) | (6,066) |
| Profit distribution on Perpetual Tier 1 sukuk by a subsidiary | | (2,570) | - |
| Dividend paid by a subsidiary to non-controlling interests | | (5,400) | (4,295) |
| Net cash from financing activities | | 45,808 | 53,518 |
| Decrease in cash and short term funds | | (50,979) | (543,051) |
| Cash and short term funds at 1 January | | 2,686,963 | 3,481,371 |
| Cash and short term funds at 30 June | | 2,635,984 | 2,938,320 |

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 2017 (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 | Total |
| At 1 January 2017 | 563,566 | 28,178 | 281,783 | 803,028 | (77,799) | 13,994 | 1,271,813 | 2,884,563 | 210,700 | 309,469 | 3,404,732 |
| Profit for the period | - | - | - | - | - | - | 164,691 | 164,691 | - | 9,257 | 173,948 |
| Other comprehensive income | - | - | - | - | - | - | 2,016 | 2,016 | - | 172 | 2,188 |
| Total comprehensive income | - | - | - | - | - | - | 166,707 | 166,707 | - | 9,429 | 176,136 |
| Issue of bonus shares (Note 7) | 28,178 | (28,178) | - | - | - | - | - | - | - | - | - |
| Dividends paid (Note 7) | - | - | - | - | - | - | (166,184) | (166,184) | - | - | (166,184) |
| Interest paid on perpetual Tier 1 capital securities | - | - | - | - | - | - | (6,146) | (6,146) | - | - | (6,146) |
| Share based payment in a subsidiary | - | - | - | - | - | - | 107 | 107 | - | 76 | 183 |
| Dividend paid by a subsidiary to non-controlling interests | - | - | - | - | - | - | - | - | - | (5,400) | (5,400) |
| Profit distribution on Perpetual Tier 1 sukuk by a subsidiary | - | - | - | - | - | - | (1,501) | (1,501) | - | (1,069) | (2,570) |
| Change in effective holding in a subsidiary | - | - | - | - | - | - | (31) | (31) | - | 120 | 89 |
| At 30 June 2017 | 591,744 | - | 281,783 | 803,028 | (77,799) | 13,994 | 1,264,765 | 2,877,515 | 210,700 | 312,625 | 3,400,840 |
| At 1 January 2016 | 503,972 | 25,198 | 251,986 | 699,840 | (77,799) | 13,994 | 1,338,748 | 2,755,939 | 210,700 | 224,485 | 3,191,124 |
| Profit for the period | - | - | - | - | - | - | 150,617 | 150,617 | - | 7,872 | 158,489 |
| Other comprehensive loss | - | - | - | - | - | - | (39,308) | (39,308) | - | (380) | (39,688) |
| Total comprehensive income | - | - | - | - | - | - | 111,309 | 111,309 | - | 7,492 | 118,801 |
| Issue of bonus shares (Note 7) | 25,198 | (25,198) | - | - | - | - | - | - | - | - | - |
| Issue of rights shares | 34,396 | - | - | 103,188 | - | - | - | 137,584 | - | - | 137,584 |
| Dividends paid (Note 7) | - | - | - | - | - | - | (148,443) | (148,443) | - | - | (148,443) |
| Interest paid on perpetual Tier 1 capital securities | - | - | - | - | - | - | (6,066) | (6,066) | - | - | (6,066) |
| Transfer to cash settled share based compensation | - | - | - | - | - | - | (2,418) | (2,418) | - | - | (2,418) |
| Share based payment in a subsidiary | - | - | - | - | - | - | 168 | 168 | - | 120 | 288 |
| Dividend paid by a subsidiary to non-controlling interests | - | - | - | - | - | - | - | - | - | (4,295) | (4,295) |
| Change in effective holding in a subsidiary | - | - | - | - | - | - | (18) | (18) | - | 71 | 53 |
| Issue of Perpetual Tier 1 sukuk by a subsidiary | - | - | - | - | - | - | - | - | - | 75,388 | 75,388 |
| Transaction costs on issue of Perpetual Tier 1 sukuk by a subsidiary | - | - | - | - | - | - | (379) | (379) | - | (271) | (650) |
| At 30 June 2016 | 563,566 | - | 251,986 | 803,028 | (77,799) | 13,994 | 1,292,901 | 2,847,676 | 210,700 | 302,990 | 3,361,366 |

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

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) for the six months period ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 6 July 2017. 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 2016.

The annual consolidated financial statements for the year ended 31 December 2016 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 requirement of IAS 39, ‘Financial Instruments: Recognition and Measurement’, 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 specifically provided for.

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 2016. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Provision charge for credit losses and impairment losses

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|----------|--------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | KD 000’s | KD 000’s | KD 000’s | KD 000’s |
| Provision charge for credit losses – specific | 3,268 | 1,603 | 15,222 | 7,555 |
| Provision charge for credit losses – general | 37,960 | 30,703 | 61,131 | 44,675 |
| Impairment losses | 6,883 | 3,400 | 9,495 | 14,393 |
| | 48,111 | 35,706 | 85,848 | 66,623 |

4 Taxation

| | Three months ended 30 June | | Six months ended 30 June | |
|---|----------------------------|----------|--------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | KD 000’s | KD 000’s | KD 000’s | KD 000’s |
| National labour support tax | 2,010 | 1,758 | 4,141 | 3,736 |
| Zakat | 880 | 791 | 1,808 | 1,646 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 769 | 654 | 1,447 | 1,316 |
| Overseas tax | 3,292 | 4,053 | 5,970 | 7,524 |
| | 6,951 | 7,256 | 13,366 | 14,222 |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

5 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 and profit paid on Perpetual Tier 1 capital securities) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

| | Three months ended 30 June | | Six months ended 30 June | |
|--|----------------------------|------------------|--------------------------|------------------|
| | 2017 KD 000's | 2016 KD 000's | 2017 KD 000's | 2016 KD 000's |
| Profit attributable to shareholders of the Bank | 79,336 | 71,682 | 164,691 | 150,617 |
| Less: Interest paid on Perpetual Tier 1 capital securities | (6,146) | (6,066) | (6,146) | (6,066) |
| Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank | (1,501) | - | (1,501) | - |
| | <u>71,689</u> | <u>65,616</u> | <u>157,044</u> | <u>144,551</u> |
| Weighted average number of shares outstanding during the period net of treasury shares (thousands) | <u>5,816,429</u> | <u>5,636,061</u> | <u>5,816,429</u> | <u>5,618,262</u> |
| Basic earnings per share | <u>12 fils</u> | <u>12 fils</u> | <u>27 fils</u> | <u>26 fils</u> |

Earnings per share calculations for the period ended 30 June 2016 have been adjusted to take account of the bonus shares issued in 2017.

6 Global medium term notes

During the period, the Bank established a USD 3 billion Global medium term note programme ("GMTN programme"). On 30 May 2017, the Bank issued senior unsecured notes amounting to USD 750,000 thousand due in May 2022 under the GMTN programme through a wholly owned special purpose vehicle. These notes were issued at 99.491 per cent of nominal value and carry a fixed interest rate of 2.75% per annum payable semi-annually in arrears.

7 Shareholders' equity

a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2016: 6,000,000,000 shares and 30 June 2016: 6,000,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises of 5,917,447,518 shares (31 December 2016: 5,635,664,303 shares and 30 June 2016: 5,635,664,303 shares) of 100 fils each.

b) Treasury shares

| | 30 June | Audited | 30 June |
|--|-------------|------------------|------------|
| | 2017 | 31 December 2016 | 2016 |
| Number of treasury shares | 101,018,981 | 96,208,554 | 96,208,554 |
| Treasury shares as a percentage of total shares in issue | 1.7% | 1.7% | 1.7% |
| Cost of treasury shares (KD thousand) | 77,799 | 77,799 | 77,799 |
| Market value of treasury shares (KD thousand) | 68,188 | 62,536 | 56,763 |
| Weighted average market value per treasury share (fils) | 698 | 643 | 679 |

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 11 March 2017 approved 5% bonus shares (2015: 5%) and a cash dividend of 30 fils per share (2015: 30 fils per share) for the year ended 31 December 2016. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 281,783,215 (2015: 251,985,884) and share capital by KD 28,178 thousand (2015: KD 25,198 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 June 2017 (Unaudited)

7 Shareholders' equity (continued)

d) Other reserves

| | | | | | | | KD 000's |
|---|----------------------------|------------------------------|---|--|--|---------------------------------------|-------------------------------------|
| | <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 2017 | 117,058 | 1,163,193 | (237,915) | 49,121 | 14,172 | 166,184 | 1,271,813 |
| Profit for the period | - | 164,691 | - | - | - | - | 164,691 |
| Other comprehensive income (loss) | - | - | 3,394 | (1,378) | - | - | 2,016 |
| Total comprehensive income (loss) | - | 164,691 | 3,394 | (1,378) | - | - | 166,707 |
| Dividends paid | - | - | - | - | - | (166,184) | (166,184) |
| Interest paid on perpetual Tier 1 capital securities | - | (6,146) | - | - | - | - | (6,146) |
| Profit distribution on Perpetual Tier 1 sukuk by a subsidiary | - | (1,501) | - | - | - | - | (1,501) |
| Share based payment in a subsidiary | - | - | - | - | 107 | - | 107 |
| Change in effective holding in a subsidiary | - | (31) | - | - | - | - | (31) |
| At 30 June 2017 | 117,058 | 1,320,206 | (234,521) | 47,743 | 14,279 | - | 1,264,765 |
| At 1 January 2016 | 117,058 | 1,107,221 | (79,749) | 29,472 | 16,303 | 148,443 | 1,338,748 |
| Profit for the period | - | 150,617 | - | - | - | - | 150,617 |
| Other comprehensive loss | - | - | (31,096) | (8,212) | - | - | (39,308) |
| Total comprehensive income (loss) | - | 150,617 | (31,096) | (8,212) | - | - | 111,309 |
| Dividends paid | - | - | - | - | - | (148,443) | (148,443) |
| Interest paid on perpetual Tier 1 capital securities | - | (6,066) | - | - | - | - | (6,066) |
| Transfer to cash settled share based compensation | - | - | - | - | (2,418) | - | (2,418) |
| Share based payment in a subsidiary | - | - | - | - | 168 | - | 168 |
| Change in effective holding in a subsidiary | - | (18) | - | - | - | - | (18) |
| Transaction costs on issue of Perpetual Tier 1 sukuk by a subsidiary | - | (379) | - | - | - | - | (379) |
| At 30 June 2016 | 117,058 | 1,251,375 | (110,845) | 21,260 | 14,053 | - | 1,292,901 |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

8 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:

| | 30 June 2017 | | | | | | |
|------------------------------|--|-------------------------------|---|-----------------------------|--------------------------|---------------------------|-------------------|
| | Consumer and Private Banking KD 000's | Corporate Banking KD 000's | Investment Banking and Asset Management KD 000's | Islamic Banking KD 000's | Group Centre KD 000's | International KD 000's | Total KD 000's |
| <i>Six months</i> | | | | | | | |
| Net operating income | <u>125,375</u> | <u>96,079</u> | <u>13,419</u> | <u>61,707</u> | <u>13,933</u> | <u>88,300</u> | <u>398,813</u> |
| Profit (loss) for the Period | <u>69,171</u> | <u>79,689</u> | <u>7,947</u> | <u>22,257</u> | <u>(52,930)</u> | <u>47,814</u> | <u>173,948</u> |
| Total assets | <u>4,296,347</u> | <u>5,620,229</u> | <u>44,556</u> | <u>3,733,757</u> | <u>3,028,582</u> | <u>8,729,052</u> | <u>25,452,523</u> |
| Total liabilities | <u>4,611,668</u> | <u>2,408,342</u> | <u>4,502</u> | <u>3,302,946</u> | <u>1,925,230</u> | <u>9,798,995</u> | <u>22,051,683</u> |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

8 Segmental analysis (continued)

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

9 Commitments and contingent liabilities

| | 30 June 2017 KD 000's | Audited 31 December 2016 KD 000's | 30 June 2016 KD 000's |
|--|--------------------------|---|--------------------------|
| Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned: | | | |
| Acceptances | 236,762 | 115,668 | 95,129 |
| Letters of credit | 359,140 | 319,459 | 289,055 |
| Guarantees | 3,542,865 | 3,638,537 | 3,619,850 |
| | 4,138,767 | 4,073,664 | 4,004,034 |

Irrevocable commitments to extend credit amount to KD 659,633 thousand (31 December 2016: KD 786,888 thousand, 30 June 2016: KD 1,240,071 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.

The Group has commitments in respect of capital expenditure amounting to KD 94,310 thousand (31 December 2016: KD 105,426 thousand, 30 June 2016: KD 87,101 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

10 Fair value of financial instruments

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial instruments recorded at fair value:

| <i>30 June 2017</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 | 2,052,757 | 1,003,812 | 14,758 | 3,071,327 |
| Equities and other investments | 77,347 | 75,359 | 70,125 | 222,831 |
| | <u>2,130,104</u> | <u>1,079,171</u> | <u>84,883</u> | <u>3,294,158</u> |
| Derivative financial instruments (Note 11) | - | (31,852) | - | (31,852) |
| | | | | |
| <i>31 December 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 | 1,753,246 | 939,419 | 14,765 | 2,707,430 |
| Equities and other investments | 91,489 | 132,410 | 71,782 | 295,681 |
| | <u>1,844,735</u> | <u>1,071,829</u> | <u>86,547</u> | <u>3,003,111</u> |
| Derivative financial instruments (Note 11) | - | 2,633 | - | 2,633 |
| | | | | |
| <i>30 June 2016</i> | <i>Level 1 KD 000's</i> | <i>Level 2 KD 000's</i> | <i>Level 3 KD 000's</i> | <i>Total KD 000's</i> |
| Debt securities | 1,705,578 | 948,071 | 16,665 | 2,670,314 |
| Equities and other investments | 121,490 | 79,718 | 74,189 | 275,397 |
| | <u>1,827,068</u> | <u>1,027,789</u> | <u>90,854</u> | <u>2,945,711</u> |
| Derivative financial instruments (Note 11) | - | (46,000) | - | (46,000) |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

10 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 2017 KD 000's</i> | <i>Change in fair value KD 000's</i> | <i>Additions KD 000's</i> | <i>Sale/ redemption KD 000's</i> | <i>Exchange rate movements KD 000's</i> | <i>At 30 June 2017 KD 000's</i> | <i>Net gains in the interim condensed consolidated statement of income KD 000's</i> |
|-----------------------------------|---|--|-------------------------------|--|---|---|---|
| Debt securities | 14,765 | - | - | - | (7) | 14,758 | 453 |
| Equities and other investments | 71,782 | 510 | 1,488 | (3,309) | (346) | 70,125 | 1,852 |
| | <u>86,547</u> | <u>510</u> | <u>1,488</u> | <u>(3,309)</u> | <u>(353)</u> | <u>84,883</u> | <u>2,305</u> |

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

11 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.

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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

11 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'. Other interest rate swaps and forward foreign exchange contracts are carried out for customers or used for hedging purpose but do not meet the qualifying criteria for hedge accounting. The risk exposures on account of derivative financial instruments for customers are covered by entering into opposite transactions (back to back) with counter parties or by other risk mitigating transactions.

Interest rate swaps

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

Forward foreign exchange

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

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

| | 30 June 2017 | | | Audited 31 December 2016 | | | 30 June 2016 | | |
|---|---------------------------------|---------------------------------|----------------------|---------------------------------|---------------------------------|----------------------|---------------------------------|---------------------------------|----------------------|
| | 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) | 14,641 | 37,769 | 1,933,433 | 25,992 | 30,117 | 1,376,449 | 3,367 | 63,026 | 1,101,104 |
| Interest rate swaps (others) | 1,360 | 1,318 | 86,552 | 1,450 | 1,404 | 84,811 | 2,233 | 2,164 | 89,452 |
| Forward foreign exchange contracts | 8,761 | 17,527 | 1,785,470 | 17,741 | 11,029 | 2,094,223 | 22,202 | 8,612 | 1,643,137 |
| | 24,762 | 56,614 | 3,805,455 | 45,183 | 42,550 | 3,555,483 | 27,802 | 73,802 | 2,833,693 |

The net fair value of interest rate swaps held as fair value hedges as at 30 June 2017 is negative KD 23,128 thousand (31 December 2016: negative KD 4,125 thousand, 30 June 2016: negative KD 59,659 thousand). Gain on the hedged fixed income financial assets amounted to KD 44,887 thousand (31 December 2016: KD 26,805 thousand, 30 June 2016: KD 55,510 thousand).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION**

30 June 2017 (Unaudited)

12 Related party transactions

Related parties comprise Board Members and Executive Officers of the Bank, their close family members, companies controlled by them or close family members and associates of the Group. Certain related parties were customers of the Group in the ordinary course of business. Transactions with related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. Lending to Board Members and their related parties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait.

Details of the interests of related parties are as follows:

| | Number of Board Members or Executive Officers | | | Number of related parties | | | 30 June 2017 | 31 December 2016 Audited KD 000's | 30 June 2016 KD 000's |
|--|--|---------------------|-----------------|---------------------------|---------------------|-----------------|-----------------|--|-----------------------------|
| | 30 June 2017 | 31 December 2016 | 30 June 2016 | 30 June 2017 | 31 December 2016 | 30 June 2016 | | | |
| Board Members | | | | | | | | | |
| Loans (secured) | 3 | 4 | 4 | 16 | 16 | 10 | 157,916 | 155,598 | 213,897 |
| Contingent liabilities | - | - | 1 | 13 | 13 | 12 | 26,873 | 20,981 | 20,078 |
| Credit cards | 6 | 6 | 6 | 11 | 10 | 2 | 68 | 99 | 9 |
| Deposits | 9 | 8 | 9 | 70 | 67 | 65 | 34,707 | 32,090 | 27,398 |
| Collateral against credit facilities | 3 | 4 | 4 | 15 | 14 | 13 | 302,109 | 288,898 | 297,207 |
| Interest and fee income | | | | | | | 2,893 | 7,586 | 4,458 |
| Interest expense | | | | | | | 34 | 43 | 32 |
| Purchase of equipment and other expenses | | | | | | | 12 | 23 | 10 |
| Executive Officers | | | | | | | | | |
| Loans | 3 | 3 | 3 | 3 | 3 | 2 | 2,572 | 2,702 | 2,130 |
| Contingent liabilities | 4 | 5 | 5 | - | - | - | 2 | 2 | 2 |
| Credit cards | 13 | 12 | 10 | 4 | 2 | 2 | 78 | 38 | 20 |
| Deposits | 13 | 13 | 12 | 33 | 33 | 24 | 3,575 | 2,910 | 3,393 |
| Interest and fee income | | | | | | | 47 | 90 | 42 |
| Interest expense | | | | | | | - | - | - |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2017 (Unaudited)

12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

| | Three months ended 30 June | | Six months ended 30 June | |
|--|-----------------------------------|--------------|---------------------------------|--------------|
| | 2017 | 2016 | 2017 | 2016 |
| | KD 000's | KD 000's | KD 000's | KD 000's |
| Salaries and other short term benefits | 1,900 | 1,740 | 3,754 | 3,427 |
| Post-employment benefits | 201 | 218 | 283 | 293 |
| Share based compensation | 173 | 109 | 315 | 222 |
| | <u>2,274</u> | <u>2,067</u> | <u>4,352</u> | <u>3,942</u> |