NATIONAL BANK OF KUWAIT GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 SEPTEMBER 2018 (UNAUDITED)

EY
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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 30 September 2018, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three month and nine month periods then ended, and the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the nine months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulation, as amended, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the nine months period ended 30 September 2018 that might have had a material effect on the business of the Bank or on its financial position.

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7 October 2018
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2018 (Unaudited)

	Notes	Three months ended 30 September 2018 KD 000's	Three months ended 30 September 2017 KD 000's	Nine months ended 30 September 2018 KD 000's	Nine months ended 30 September 2017 KD 000's
Interest income		**233,049**	192,454	**657,684**	546,316
Interest expense		**87,075**	59,587	**235,738**	161,430
Net interest income		**145,974**	132,867	**421,946**	384,886
Murabaha and other Islamic financing income		**48,373**	40,267	**136,546**	114,355
Finance cost and Distribution to depositors		**16,124**	12,084	**43,463**	32,978
Net income from Islamic financing		**32,249**	28,183	**93,083**	81,377
Net interest income and net income from Islamic financing		**178,223**	161,050	**515,029**	466,263
Net fees and commissions		**37,969**	35,000	**114,433**	102,321
Net investment income	6	**(6,615)**	5,705	**1,448**	15,754
Net gains from dealing in foreign currencies		**10,204**	9,131	**29,235**	23,942
Other operating income		**(164)**	195	**1,653**	1,614
Non-interest income		**41,394**	50,031	**146,769**	143,631
Net operating income		**219,617**	211,081	**661,798**	609,894
Staff expenses		**39,938**	38,613	**119,825**	112,876
Other administrative expenses		**22,615**	22,378	**69,044**	64,318
Depreciation of premises and equipment		**3,652**	3,599	**10,892**	11,474
Amortisation of intangible assets		**774**	773	**2,323**	2,346
Operating expenses		**66,979**	65,363	**202,084**	191,014
Operating profit before provision for credit losses and impairment losses		**152,638**	145,718	**459,714**	418,880
Provision charge for credit losses and impairment losses	3	**51,490**	60,500	**145,422**	146,348
Operating profit before taxation		**101,148**	85,218	**314,292**	272,532
Taxation	4	**8,276**	6,641	**24,680**	20,007
Profit for the period		**92,872**	78,577	**289,612**	252,525
Attributable to:					
Shareholders of the Bank		**86,539**	73,670	**272,395**	238,361
Non-controlling interests		**6,333**	4,907	**17,217**	14,164
		92,872	78,577	**289,612**	252,525
Basic earnings per share attributable to shareholders of the Bank	5	**14 fils**	12 fils	**43 fils**	38 fils

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2018 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD 000's	KD 000's	**KD 000's**	KD 000's
Profit for the period	**92,872**	78,577	**289,612**	252,525
Other comprehensive income:				
Investments available for sale:				
Net change in fair value	-	5,308	-	11,098
Net transfer to consolidated statement of income	-	(4,373)	-	(11,474)
Investment in debt securities measured at FVOCI:				
Net change in fair value	**15,199**	-	**4,090**	-
Net transfer to consolidated statement of income	**71**	-	**116**	-
	15,270	935	**4,206**	(376)
Share of other comprehensive (loss) income of associates	**(114)**	(23)	**(125)**	208
Exchange differences on translation of foreign operations	**11,032**	844	**5,039**	4,112
Other comprehensive income for the period reclassifiable to consolidated statement of income in subsequent periods	**26,188**	1,756	**9,120**	3,944
Net gain on investments in equity instruments designated at FVOCI (not reclassifiable to consolidated statement of income in subsequent periods)	**13**	-	**30**	-
Total comprehensive income for the period	**119,073**	80,333	**298,762**	256,469
Attributable to:				
Shareholders of the Bank	**111,431**	75,690	**282,818**	242,397
Non-controlling interests	**7,642**	4,643	**15,944**	14,072
	119,073	80,333	**298,762**	256,469

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2018 (Unaudited)

	Notes	30 September 2018 KD 000's	Audited 31 December 2017 KD 000's	30 September 2017 KD 000's
Assets				
Cash and short term funds		**2,944,212**	2,743,640	2,743,575
Central Bank of Kuwait bonds		**798,367**	655,591	607,651
Kuwait Government treasury bonds		**868,407**	1,076,211	1,109,237
Deposits with banks		**2,306,206**	2,488,188	2,314,376
Loans, advances and Islamic financing to customers		**15,407,046**	14,502,609	14,464,486
Investment securities		**3,565,964**	3,348,996	3,270,810
Investment in associates	6	**33,760**	63,187	65,053
Land, premises and equipment		**352,114**	324,277	301,642
Goodwill and other intangible assets		**579,708**	581,906	583,160
Other assets		**269,932**	249,996	208,943
Total assets		**27,125,716**	26,034,601	25,668,933
Liabilities				
Due to banks and other financial institutions		**8,010,029**	7,469,303	7,549,825
Customer deposits		**14,069,599**	13,779,607	13,348,385
Certificates of deposit issued		**619,871**	490,835	549,984
Global medium term notes		**216,247**	221,173	224,206
Subordinated Tier 2 bonds		**124,759**	124,734	124,726
Other liabilities		**445,807**	387,848	390,562
Total liabilities		**23,486,312**	22,473,500	22,187,688
Equity				
Share capital	7	**621,332**	591,744	591,744
Proposed bonus shares	7	**-**	29,588	-
Statutory reserve		**295,872**	295,872	281,783
Share premium account		**803,028**	803,028	803,028
Treasury shares	7	**(65,425)**	(77,799)	(77,799)
Treasury shares reserve		**14,010**	13,994	13,994
Other reserves	7	**1,437,041**	1,372,964	1,340,497
Equity attributable to shareholders of the Bank		**3,105,858**	3,029,391	2,953,247
Perpetual Tier 1 Capital Securities		**210,700**	210,700	210,700
Non-controlling interests		**322,846**	321,010	317,298
Total equity		**3,639,404**	3,561,101	3,481,245
Total liabilities and equity		**27,125,716**	26,034,601	25,668,933

Nasser Musaed Abdullah Al- Sayer
Chairman

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2018 (Unaudited)

	Notes	Nine months ended 30 September 2018 KD 000's	2017 KD 000's
Operating activities			
Profit for the period		**289,612**	252,525
Adjustments for:			
Net investment income		**(1,448)**	(15,754)
Depreciation of premises and equipment		**10,892**	11,474
Amortisation of intangible assets		**2,323**	2,346
Provision charge for credit losses and impairment losses	3	**145,422**	146,348
Share based payment reserve		**97**	255
Taxation	4	**24,680**	20,007
Operating profit before changes in operating assets and liabilities		**471,578**	417,201
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		**(142,776)**	141,238
Kuwait Government treasury bonds		**207,804**	(613,102)
Deposits with banks		**181,982**	93,539
Loans, advances and Islamic financing to customers		**(1,038,665)**	(988,230)
Other assets		**(19,936)**	(20,828)
Due to banks and other financial institutions		**540,726**	202,022
Customer deposits		**289,992**	740,293
Certificates of deposit issued		**129,036**	133,995
Other liabilities		**49,109**	44,506
Tax paid		**(22,961)**	(23,415)
Net cash from operating activities		**645,889**	127,219
Investing activities			
Purchase of investment securities		**(1,357,596)**	(1,321,086)
Proceeds from sale/redemption of investment securities		**1,140,602**	1,261,043
Dividend income		**1,577**	1,840
Dividend from associates		**236**	34
Acquisition of non-controlling interests		**(13,744)**	-
Proceeds from sale of land, premises and equipment		**1,627**	1,294
Purchase of land, premises and equipment		**(40,356)**	(59,324)
Net cash used in investing activities		**(267,654)**	(116,199)
Financing activities			
Net proceeds from issuance of Global medium term notes		**-**	225,892
Proceeds from sale of treasury shares		**12,390**	-
Dividends paid		**(174,883)**	(166,184)
Interest paid on Perpetual Tier 1 capital securities		**(6,038)**	(6,146)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary		**(2,544)**	(2,570)
Dividend paid by a subsidiary to non-controlling interests		**(6,588)**	(5,400)
Net cash (used in) from financing activities		**(177,663)**	45,592
Increase in cash and short term funds		**200,572**	56,612
Cash and short term funds at 1 January		**2,743,640**	2,686,963
Cash and short term funds at 30 September		**2,944,212**	2,743,575

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
30 September 2018 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank										
	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 equity
Balance at 31 December 2017	**591,744**	**29,588**	**295,872**	**803,028**	**(77,799)**	**13,994**	**1,372,964**	**3,029,391**	**210,700**	**321,010**	**3,561,101**
Impact of adopting IFRS 9 at 1 January 2018 (Refer note 10)	-	-	-	-	-	-	**(29,045)**	**(29,045)**	-	**(104)**	**(29,149)**
Restated balance as at 1 January 2018	**591,744**	**29,588**	**295,872**	**803,028**	**(77,799)**	**13,994**	**1,343,919**	**3,000,346**	**210,700**	**320,906**	**3,531,952**
Profit for the period	-	-	-	-	-	-	**272,395**	**272,395**	-	**17,217**	**289,612**
Other comprehensive income (loss)	-	-	-	-	-	-	**10,423**	**10,423**	-	**(1,273)**	**9,150**
Total comprehensive income	-	-	-	-	-	-	**282,818**	**282,818**	-	**15,944**	**298,762**
Issue of bonus shares (Note 7)	**29,588**	**(29,588)**	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	**12,374**	**16**	-	**12,390**	-	-	**12,390**
Dividends paid (Note 7)	-	-	-	-	-	-	**(174,883)**	**(174,883)**	-	-	**(174,883)**
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	**(6,038)**	**(6,038)**	-	-	**(6,038)**
Share based payment in a subsidiary	-	-	-	-	-	-	**57**	**57**	-	**40**	**97**
Dividend paid by a subsidiary to non- controlling interests	-	-	-	-	-	-	-	-	-	**(6,588)**	**(6,588)**
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	**(1,506)**	**(1,506)**	-	**(1,038)**	**(2,544)**
Acquisition of non-controlling interests	-	-	-	-	-	-	**(7,326)**	**(7,326)**	-	**(6,418)**	**(13,744)**
At 30 September 2018	**621,332**	-	**295,872**	**803,028**	**(65,425)**	**14,010**	**1,437,041**	**3,105,858**	**210,700**	**322,846**	**3,639,404**
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	-	-	-	-	-	-	238,361	238,361	-	14,164	252,525
Other comprehensive income (loss)	-	-	-	-	-	-	4,036	4,036	-	(92)	3,944
Total comprehensive income	-	-	-	-	-	-	242,397	242,397	-	14,072	256,469
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	-	-	-	-	-	-	149	149	-	106	255
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 September 2017	591,744	-	281,783	803,028	(77,799)	13,994	1,340,497	2,953,247	210,700	317,298	3,481,245

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

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") for the nine months period ended 30 September 2018 were authorised for issue in accordance with a resolution of the directors on 7 October 2018. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a bank (commercial registration number – 8490) 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

Basis of preparation

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 2017 except for the changes described below arising from the partial adoption of IFRS 9 'Financial Instruments'effective from 1 January 2018.

The annual consolidated financial statements for the year ended 31 December 2017 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 2017. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

Changes in accounting policies

Adoption of IFRS 9 'Financial Instruments'

The Group has adopted IFRS 9 Financial Instruments effective from 1 January 2018 with the exception of requirements of the expected credit losses (ECL) on credit facilities which have been replaced by the provisioning requirements of Central Bank of Kuwait. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities, impairment of financial assets and hedge accounting. This standard replaces IAS 39 Financial Instruments:Recognition and Measurement.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in Note 10.

The key changes to the Group's accounting policies resulting from the adoption of IFRS 9 are summarised below:

Classification and Measurement of Financial assets

The Group determines the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cashflow characteristics of the financial assets.

2 Accounting policies (continued)

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cashflows that are unrelated to a basic lending arrangement do not give rise to contractual cashflows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Group classifies its financial assets upon initial recognition into the following categories :
- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of income. Any gain or loss on derecognition is recognised in the consolidated statement of income.

2 Accounting policies (continued)

Financial assets carried at fair value through other comprehensive income (FVOCI):

(i) Debt Securities at FVOCI

A debt investment is carried at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the consolidated statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the consolidated statement of income.

(ii) Equity investments at FVOCI

Upon initial recognition, the Group makes an irrevocable election to classify some of its equity investments as equity investments at FVOCI if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading .Such classification is determined on an instrument by instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange component are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity. Cumulative gains and losses previously recognised in other comprehensive income are transferred to retained earnings on derecognition and are not recognised in the consolidated statement of income. Dividend income on equity investments at FVOCI are recognised in the consolidated statement of income unless they clearly represent a recovery of part of the cost of the investment in which case they are recognised in other comprehensive income. Equity investments at FVOCI are not subject to impairment assessment.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument at FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cashflows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the consolidated statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the consolidated statement of income when the right to the payment has been established.

Reclassification of financial assets

The Group does not reclassify its financial assets subsequent to their initial recognition other than in the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line.

2 Accounting policies (continued)

Impairment of financial assets

The Group recognises Expected Credit Losses (ECL) for debt instruments (other than loans, advances and Islamic financing to customers) measured at amortised cost or FVOCI. The Group applies a three stage approach to measure the expected credit loss as follows:

Stage 1 : 12-month ECL
The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2 : Lifetime ECL – not credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3 : Lifetime ECL – credit impaired
The Group measures loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Determining the stage of impairment
At each reporting date, the Group assesses whether a financial asset or group of financial assets is credit impaired. The Group considers a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cashflows of the financial asset have occurred or when contractual payments are 90 days past due.

At each reporting date, the Group also assesses whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Measurement of ECLs
ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represent the difference between cashflows due to the Group in accordance with the contract and the cashflows that the Group expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macro economic scenarios etc.

Incorporation of forward looking information
The Group considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on regular basis.

2 Accounting policies (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Group recognises the ECL charge in the consolidated statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the consolidated statement of financial position.

Impairment of credit facilities

The Group recognises provision charge for credit facilities in accordance with the existing accounting policy for impairment of financial assets carried at amortised cost as disclosed in the annual consolidated financial statements for the year ended 31 December 2017. This complies in all material respects with the specific and general provision requirements of the Central Bank of Kuwait.

Hedge accounting

The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The adoption of general hedge accounting requirements of IFRS 9 does not result in any change in accounting policies of the Group and does not have any material effect on the Group's consolidated financial statements.

Changes and implications resulting from the adoption of IFRS 9 are explained in Note 10.

Adoption of IFRS 15 'Revenue from Contracts with customers'

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This standard removes inconsistencies and weaknesses in previous revenue recognition requirements, provides a more robust framework for addressing revenue issues and improves comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The adoption of this standard did not result in any change in accounting policies of the Group and did not have any material effect on the Group's consolidated financial statements.

3 Provision charge for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD 000's	KD 000's	**KD 000's**	KD 000's
Provision charge for credit facilities – specific	**49,368**	35,161	**134,319**	50,383
Provision charge for credit facilities – general	**1,058**	23,499	**2,603**	84,630
Other impairment losses	**1,064**	1,840	**8,500**	11,335
	51,490	60,500	**145,422**	146,348

4 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD 000's	KD 000's	**KD 000's**	KD 000's
National labour support tax	**2,164**	1,834	**6,841**	5,975
Zakat	**968**	823	**3,019**	2,631
Contribution to Kuwait Foundation for the Advancement of Sciences	**842**	697	**2,483**	2,144
Overseas tax	**4,302**	3,287	**12,337**	9,257
	8,276	6,641	**24,680**	20,007

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 September		**Nine months ended 30 September**	
	2018	2017	**2018**	2017
	KD 000's	KD 000's	**KD 000's**	KD 000's
Profit attributable to shareholders of the Bank	**86,539**	73,670	**272,395**	238,361
Less: Interest paid on Perpetual Tier 1 capital securities	**-**	-	**(6,038)**	(6,146)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	**-**	-	**(1,506)**	(1,501)
	86,539	73,670	**264,851**	230,714
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	**6,124,120**	6,107,250	**6,120,107**	6,107,250
Basic earnings per share	**14 fils**	12 fils	**43 fils**	38 fils

Earnings per share calculations for the period ended 30 September 2017 have been adjusted to take account of the bonus shares issued in 2018.

6 Net investment income

During the period, the Group discontinued the use of equity method of accounting for an associate due to loss of significant influence and accordingly reclassified this investment to 'investment at fair value through other comprehensive income'. The net loss arising from this reclassification amounting to KD 5,032 thousand is included under net investment income in the interim condensed consolidated statement of income.

7 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2017: 6,000,000,000 shares and 30 September 2017: 6,000,000,000 shares) of KD 0.100 each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 10 March 2018. The issued and fully paid up share capital of the Bank comprises 6,213,319,893 shares (31 December 2017: 5,917,447,518 shares and 30 September 2017: 5,917,447,518 shares) of KD 0.100 each.

b) Treasury shares

	30 September 2018	Audited 31 December 2017	30 September 2017
Number of treasury shares	**89,200,000**	101,018,981	101,018,981
Treasury shares as a percentage of total shares in issue	**1.4%**	1.7%	1.7%
Cost of treasury shares (KD thousand)	**65,425**	77,799	77,799
Market value of treasury shares (KD thousand)	**74,304**	73,542	76,875
Weighted average market value per treasury share (fils)	**770**	718	708

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 10 March 2018 approved 5% bonus shares (2017: 5%) and a cash dividend of 30 fils per share (2017: 30 fils per share) for the year ended 31 December 2017. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 295,872,375 (2017: 281,783,215) and share capital by KD 29,588 thousand (2017: KD 28,178 thousand).

7 Shareholders' equity (continued)

d) Other reserves

KD 000's

	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
Balance at 31 December 2017	**117,058**	**1,252,044**	**(234,491)**	**49,479**	**14,381**	**174,493**	**1,372,964**
Impact of adopting IFRS 9 at 1 January 2018 (Refer note 10)	-	**(24,427)**	-	**(4,618)**	-	-	**(29,045)**
Restated balance as at 1 January 2018	**117,058**	**1,227,617**	**(234,491)**	**44,861**	**14,381**	**174,493**	**1,343,919**
Profit for the period	-	**272,395**	-	-	-	-	**272,395**
Other comprehensive income	-	-	**5,617**	**4,806**	-	-	**10,423**
Total comprehensive income	-	**272,395**	**5,617**	**4,806**	-	-	**282,818**
Dividend on treasury shares sold	-	**(390)**	-	-	-	**390**	-
Dividends paid	-	-	-	-	-	**(174,883)**	**(174,883)**
Interest paid on perpetual Tier 1 capital securities	-	**(6,038)**	-	-	-	-	**(6,038)**
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	**(1,506)**	-	-	-	-	**(1,506)**
Realised loss on equity investments at FVOCI	-	**(92)**	-	**92**	-	-	-
Share based payment in a subsidiary	-	-	-	-	**57**	-	**57**
Acquisition of non-controlling interests	-	**(7,326)**	-	-	-	-	**(7,326)**
At 30 September 2018	**117,058**	**1,484,660**	**(228,874)**	**49,759**	**14,438**	-	**1,437,041**
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	1,271,813
Profit for the period	-	238,361	-	-	-	-	238,361
Other comprehensive income (loss)	-	-	4,521	(485)	-	-	4,036
Total comprehensive income (loss)	-	238,361	4,521	(485)	-	-	242,397
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	-	-	-	-	149	-	149
Change in effective holding in a subsidiary	-	(31)	-	-	-	-	(31)
At 30 September 2017	117,058	1,393,876	(233,394)	48,636	14,321	-	1,340,497

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 September 2018						
	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**
Nine months							
Net operating income	**208,136**	**138,891**	**22,207**	**108,526**	**28,619**	**155,419**	**661,798**
Profit (loss) for the period	**125,284**	**31,035**	**13,537**	**40,413**	**(7,297)**	**86,640**	**289,612**
Total assets	**4,552,079**	**5,107,170**	**59,260**	**4,253,123**	**3,208,557**	**9,945,527**	**27,125,716**
Total liabilities	**4,910,299**	**2,563,340**	**8,083**	**3,779,355**	**1,210,423**	**11,014,812**	**23,486,312**

8 Segmental analysis (continued)

	30 September 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
Nine months							
Net operating income	193,062	143,441	20,147	94,386	24,152	134,706	609,894
Profit (loss) for the period	110,078	99,976	11,378	34,001	(75,706)	72,798	252,525
Total assets	4,361,619	5,520,642	70,545	3,829,996	3,073,999	8,812,132	25,668,933
Total liabilities	4,549,986	2,307,082	21,145	3,387,489	2,055,877	9,866,109	22,187,688

9 Commitments and contingent liabilities

	30 September 2018 KD 000's	Audited 31 December 2017 KD 000's	30 September 2017 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	**272,805**	144,001	195,373
Letters of credit	**435,064**	328,943	326,754
Guarantees	**3,748,283**	3,755,718	3,603,661
	4,456,152	4,228,662	4,125,788

Irrevocable commitments to extend credit amount to KD 648,265 thousand (31 December 2017: KD 713,129 thousand, 30 September 2017: KD 712,984 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 40,294 thousand (31 December 2017: KD 60,019 thousand, 30 September 2017: KD 64,948 thousand).

10 Impacts of IFRS 9 adoption

The following table shows the original classification and measurement categories in accordance with IAS 39 and the new classification and measurement categories under IFRS 9 for the Group's financial assets other than Loans, advances and Islamic financing to customers as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD 000's	Remeasurement ECL KD 000's	Reclassification/ Remeasurement KD 000's	New carrying amount under IFRS 9 KD 000's
Financial assets						
Cash and short term funds	Loans and receivables	Amortised cost	**2,743,640**	**(395)**	**-**	**2,743,245**
Deposits with banks	Loans and receivables	Amortised cost	**2,488,188**	**(491)**	**-**	**2,487,697**
Central Bank of Kuwait bonds	HTM	Amortised cost	**655,591**	**(13)**	**-**	**655,578**
Kuwait Government treasury bonds	HTM	Amortised cost	**919,218**	**(72)**	**-**	**919,146**
Kuwait Government treasury bonds	AFS	Amortised cost	**156,993**	**(12)**	**(985)**	**155,996**
Investment securities						
Debt securities	AFS	FVOCI	**2,167,749**	**-**	**-**	**2,167,749**
Debt securities	AFS	Amortised cost	**795,099**	**(24,494)**	**(73)**	**770,532**
Debt securities	HTM	Amortised cost	**138,493**	**(1,640)**	**-**	**136,853**
Equities	AFS	FVOCI	**36,275**	**-**	**-**	**36,275**
Equities	FVTPL	FVOCI	**3,477**	**-**	**-**	**3,477**
Equities and other investments	AFS	FVTPL	**171,972**	**-**	**(974)**	**170,998**
Equities and other investments	FVTPL	FVTPL	**35,931**	**-**	**-**	**35,931**
Derivative assets	FVTPL	FVTPL	**27,680**	**-**	**-**	**27,680**
Other financial assets	Loans and receivables	Amortised cost	**134,882**	**-**	**-**	**134,882**
			10,475,188	**(27,117)**	**(2,032)**	**10,446,039**

(HTM: Held to maturity, AFS: Available for sale, FVOCI: Fair value through other comprehensive income , FVTPL: Fair value through profit or loss)

10 Impacts of IFRS 9 adoption (continued)

The adoption of IFRS 9 did not result in any change in the classification and measurement of loans, advances and islamic financing to customers. Loans, advances and islamic financing to customers are carried at amortised cost using effective interest method less any amounts written off and provision for impairment. The provision for impairment is based on the provisioning requirements of Central Bank of Kuwait.

The following table reconciles the closing impairment allowances for financial assets other than loans, advances and islamic financing to customers determined in accordance with IAS 39 as at 31 December 2017 to the opening ECL allowances determined in accordance with IFRS 9 as at 1 January 2018.

	Impairment allowances under IAS 39 at 31 December 2017 KD 000's	Remeasurement KD 000's	Expected credit losses under IFRS 9 at 1 January 2018 KD 000's
Debt investment securities measured at amortised cost	-	26,134	26,134
Debt investment securities measured at FVOCI	-	7,072	7,072
Other financial assets measured at amortised cost	-	983	983
Total expected credit losses	-	34,189	34,189

The ECL charge for the period ended 30 September 2018 is not material and is included in other impairment losses in the interim condensed consolidated statement of income.

The following table analyses the impact on transition to IFRS 9 to reserves and retained earnings.

	Cumulative changes in fair values KD 000's	Retained earnings KD 000's	Equity attributable to shareholders KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Closing balance under IAS 39 (31 December 2017)	49,479	1,252,044	3,029,391	321,010	3,561,101
Reclassification					
Debt investment securities from available for sale to amortised cost	(1,047)	-	(1,047)	(11)	(1,058)
Equities and other investments from available for sale to FVTPL	(2,513)	1,539	(974)	-	(974)
Equities from available for sale to FVOCI	(8,022)	8,022	-	-	-
Recognition of expected credit losses under IFRS 9	6,964	(33,988)	(27,024)	(93)	(27,117)
Impact on adoption of IFRS 9	(4,618)	(24,427)	(29,045)	(104)	(29,149)
Opening balance under IFRS 9 (1 January 2018)	44,861	1,227,617	3,000,346	320,906	3,531,952

11 Fair value of financial instruments

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

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

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

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

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

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

30 September 2018	**Level 1 KD 000's**	**Level 2 KD 000's**	**Level 3 KD 000's**	**Total KD 000's**
Debt securities	**2,136,856**	**348,393**	**14,000**	**2,499,249**
Equities and other investments	**50,543**	**58,147**	**86,831**	**195,521**
	2,187,399	**406,540**	**100,831**	**2,694,770**
Derivative financial instruments (Note 12)	-	**34,536**	-	**34,536**

31 December 2017	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,074,930	1,030,534	14,377	3,119,841
Equities and other investments	58,829	122,844	65,487	247,160
	2,133,759	1,153,378	79,864	3,367,001
Derivative financial instruments (Note 12)	-	(26,443)	-	(26,443)

30 September 2017	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,032,411	1,002,974	14,378	3,049,763
Equities and other investments	71,110	82,876	66,858	220,844
	2,103,521	1,085,850	81,236	3,270,607
Derivative financial instruments (Note 12)	-	(29,775)	-	(29,775)

11 Fair value of financial instruments (continued)

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

	At 1 January 2018 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 September 2018 KD 000's	Net gains (losses) in the interim condensed consolidated statement of income KD 000's
Debt securities	**14,377**	-	-	**(379)**	**2**	**14,000**	**716**
Equities and other investments	**65,487**	**(3,554)**	**28,268**	**(3,497)**	**127**	**86,831**	**(1,852)**
	79,864	**(3,554)**	**28,268**	**(3,876)**	**129**	**100,831**	**(1,136)**

	At 1 January 2017 KD 000's	Change in fair value KD 000's	Additions KD 000's	Sale/ redemption KD 000's	Exchange rate movements KD 000's	At 30 September 2017 KD 000's	Net gains in the interim condensed consolidated statement of income KD 000's
Debt securities	14,765	-	-	(378)	(9)	14,378	698
Equities and other investments	71,782	(758)	1,576	(5,336)	(406)	66,858	4,101
	86,547	(758)	1,576	(5,714)	(415)	81,236	4,799

12 Derivative financial instruments

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

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.

12 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 September 2018			Audited 31 December 2017			30 September 2017		
	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)	**60,852**	**29,719**	**2,184,312**	20,989	37,845	1,947,427	13,237	40,989	1,947,707
Interest rate swaps (others)	**501**	**475**	**88,415**	962	926	91,050	1,031	977	90,324
Forward foreign exchange contracts	**7,889**	**4,512**	**2,493,949**	5,729	15,352	2,171,714	11,281	13,358	1,883,706
	69,242	**34,706**	**4,766,676**	27,680	54,123	4,210,191	25,549	55,324	3,921,737

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2018 is positive KD 31,133 thousand (31 December 2017: negative KD 16,856 thousand, 30 September 2017: negative KD 27,752 thousand). Gain on the hedged fixed income financial assets amounted to KD 216 thousand (31 December 2017: KD 41,534 thousand, 30 September 2017: KD 53,069 thousand).

13 Related party transactions

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

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties					
	30 September 2018	31 December 2017	30 September 2017	**30 September 2018**	31 December 2017	30 September 2017	**30 September 2018**	31 December 2017 Audited	30 September 2017
							KD 000's	KD 000's	KD 000's
Board Members									
Loans (secured)	**3**	3	3	**16**	15	17	**116,695**	125,328	165,725
Contingent liabilities	**-**	-	-	**10**	12	12	**26,198**	21,508	25,389
Credit cards	**5**	7	8	**11**	12	12	**68**	66	67
Deposits	**9**	9	9	**68**	69	68	**43,186**	37,184	32,398
Collateral against credit facilities	**3**	3	3	**16**	14	15	**305,550**	278,512	324,909
Interest and fee income							**3,614**	5,864	4,460
Interest expense							**116**	100	68
Purchase of equipment and other expenses							**4**	23	20
Executive Officers									
Loans	**1**	4	4	**2**	6	3	**2,213**	2,795	2,591
Contingent liabilities	**4**	4	4	**-**	-	-	**2**	2	2
Credit cards	**13**	12	12	**2**	2	4	**48**	47	75
Deposits	**13**	13	13	**33**	31	34	**4,775**	3,782	4,644
Interest and fee income							**77**	100	74
Interest expense							**40**	5	[illegible]

13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	**2018**	2017
	KD 000's	KD 000's	**KD 000's**	KD 000's
Salaries and other short term benefits	**1,957**	1,925	**5,825**	5,679
Post-employment benefits	**56**	161	**322**	444
Share based compensation	**381**	234	**870**	549
	2,394	2,320	**7,017**	6,672