

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 JUNE 2021 (UNAUDITED)



Building a better
Working World

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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 June 2021, and the related interim condensed consolidated statement of income and the interim condensed consolidated statement of comprehensive income for the three month and six 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 six 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 of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the six months period ended 30 June 2021 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 six months period ended 30 June 2021 that might have had a material effect on the business of the Bank or on its financial position.

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14 July 2021
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 June 2021 (Unaudited)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
Interest income		166,147	190,637	326,034	418,774
Interest expense		36,649	75,501	74,398	168,056
Net interest income		129,498	115,136	251,636	250,718
Murabaha and other Islamic financing income		56,607	55,653	112,613	114,076
Finance cost and Distribution to depositors		14,899	21,461	30,647	46,270
Net income from Islamic financing		41,708	34,192	81,966	67,806
Net interest income and net income from Islamic financing		171,206	149,328	333,602	318,524
Net fees and commissions		42,007	33,218	81,417	71,515
Net investment income (loss)		9,798	550	18,105	(2,783)
Net gains from dealing in foreign currencies		7,807	6,080	15,923	25,613
Other operating income		196	592	3,487	1,688
Non-interest income		59,808	40,440	118,932	96,033
Net operating income		231,014	189,768	452,534	414,557
Staff expenses		48,506	39,273	94,547	84,810
Other administrative expenses		30,590	23,512	57,795	52,001
Depreciation of premises and equipment		8,531	8,662	16,956	16,663
Amortisation of intangible assets		412	411	824	823
Operating expenses		88,039	71,858	170,122	154,297
Operating profit before provision for credit losses and impairment losses		142,975	117,910	282,412	260,260
Provision charge for credit losses and impairment losses	3	54,580	75,146	97,206	126,644
Operating profit before taxation		88,395	42,764	185,206	133,616
Taxation	4	8,594	6,404	16,427	15,440
Profit for the period		79,801	36,360	168,779	118,176
Attributable to:					
Shareholders of the Bank		76,458	33,419	160,766	111,092
Non-controlling interests		3,343	2,941	8,013	7,084
		79,801	36,360	168,779	118,176
Basic earnings per share attributable to shareholders of the Bank	5	9 fils	3 fils	21 fils	14 fils

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 June 2021 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2021 KD 000's	2020 KD 000's	2021 KD 000's	2020 KD 000's
Profit for the period	79,801	36,360	168,779	118,176
Other comprehensive income (loss):				
Investment in debt securities measured at FVOCI:				
Net change in fair value	7,552	132,223	42,362	(115,444)
Net transfer to interim condensed consolidated statement of income	(1,819)	1,468	(8,161)	10,396
	5,733	133,691	34,201	(105,048)
Share of other comprehensive loss of associates	(2)	(2)	(5)	(289)
Exchange differences on translation of foreign operations	(2,071)	(6,880)	(8,645)	6,968
Other comprehensive income (loss) for the period reclassifiable to interim condensed consolidated statement of income in subsequent periods	3,660	126,809	25,551	(98,369)
Net gain (loss) on investments in equity instruments designated at FVOCI (not reclassifiable to interim condensed consolidated statement of income in subsequent periods)	703	(6,260)	725	(7,265)
Other comprehensive income (loss) for the period	4,363	120,549	26,276	(105,634)
Total comprehensive income for the period	84,164	156,909	195,055	12,542
Attributable to:				
Shareholders of the Bank	80,219	149,770	184,889	15,717
Non-controlling interests	3,945	7,139	10,166	(3,175)
	84,164	156,909	195,055	12,542


The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021 (Unaudited)

	Notes	30 June 2021 KD 000's	Audited 31 December 2020 KD 000's	30 June 2020 KD 000's
Assets				
Cash and short term funds		4,358,026	3,903,371	3,771,114
Central Bank of Kuwait bonds		830,000	830,233	829,963
Kuwait Government treasury bonds		448,015	462,922	580,248
Deposits with banks		1,289,183	1,027,373	1,113,173
Loans, advances and Islamic financing to customers	6	18,502,856	17,504,342	17,571,038
Investment securities		4,734,457	4,728,778	4,504,557
Investment in associates		4,143	5,195	6,251
Land, premises and equipment		439,842	426,963	447,896
Goodwill and other intangible assets		580,726	581,881	582,882
Other assets	14	391,384	246,333	273,138
Total assets		31,578,632	29,717,391	29,680,260
Liabilities				
Due to banks and other financial institutions		6,967,561	5,981,573	6,336,669
Customer deposits		17,400,182	17,104,232	17,563,721
Certificates of deposit issued		1,401,308	918,862	501,894
Other borrowed funds		820,204	808,665	595,066
Other liabilities		729,235	763,004	781,877
Total liabilities		27,318,490	25,576,336	25,779,227
Equity				
Share capital	7	719,269	685,019	685,019
Proposed bonus shares	7	-	34,250	-
Statutory reserve		342,511	342,511	326,199
Share premium account		803,028	803,028	803,028
Treasury shares	7	-	-	(39,258)
Treasury shares reserve		34,961	34,961	25,115
Other reserves	7	1,443,964	1,410,240	1,279,450
Equity attributable to shareholders of the Bank		3,343,733	3,310,009	3,079,553
Perpetual Tier 1 Capital Securities	8	439,032	438,438	438,438
Non-controlling interests	7	477,377	392,608	383,042
Total equity		4,260,142	4,141,055	3,901,033
Total liabilities and equity		31,578,632	29,717,391	29,680,260


 Nasser Musaed Abdullah Al-Sayer
 Chairman

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 June 2021 (Unaudited)

	Notes	Six months ended 30 June 2021 KD 000's	2020 KD 000's
Operating activities			
Profit for the period		168,779	118,176
Adjustments for:			
Net investment (income) loss		(18,105)	2,783
Depreciation of premises and equipment		16,956	16,663
Amortisation of intangible assets		824	823
Provision charge for credit losses and impairment losses	3	97,206	126,644
Taxation	4	16,427	15,440
Cash flow from operating activities before changes in operating assets and liabilities		282,087	280,529
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		233	(6,734)
Kuwait Government treasury bonds		14,907	81,927
Deposits with banks		(273,979)	788,143
Loans, advances and Islamic financing to customers		(1,173,075)	(695,754)
Other assets		(6,163)	23,644
Due to banks and other financial institutions		985,988	(1,394,682)
Customer deposits		295,950	1,268,260
Certificates of deposit issued		482,446	(36,717)
Other liabilities		(60,863)	(1,702)
Tax paid		(16,785)	(16,579)
Net cash from operating activities		530,746	290,335
Investing activities			
Purchase of investment securities		(1,805,391)	(885,100)
Proceeds from sale/redemption of investment securities		1,811,984	629,812
Dividend income		1,224	45
Proceeds from sale of investment in associate		-	690
Purchase of investment in associate		-	(538)
Acquisition of subsidiary net of cash acquired		-	(325)
Transaction costs related to acquisition of a subsidiary		-	(1,815)
Proceeds from sale of land, premises and equipment		579	701
Purchase of land, premises and equipment		(26,786)	(27,544)
Net cash used in investing activities		(18,390)	(284,074)
Financing activities			
Net proceeds from issuance of Perpetual Tier 1 Capital Securities		210,436	-
Redemption of Perpetual Tier 1 Capital Securities		(210,700)	-
Interest paid on Perpetual Tier 1 Capital Securities		(10,950)	(11,474)
Net Proceeds from issuance of Perpetual Tier 1 Sukuk by a subsidiary		149,775	-
Redemption of Perpetual Tier 1 Sukuk by a subsidiary		(75,388)	-
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary		(2,443)	(2,608)
Proceeds from issuance of Sukuk by a subsidiary		-	228,600
Dividends paid	7	(137,004)	(226,373)
Dividend paid by a subsidiary to non-controlling interests		-	(10,465)
Other borrowed funds		18,573	-
Net cash used in financing activities		(57,701)	(22,320)
Increase (decrease) in cash and short term funds		454,655	(16,059)
Cash and short term funds at 1 January		3,903,371	3,787,173
Cash and short term funds at 30 June		4,358,026	3,771,114

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2021 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank							Total	Perpetual Tier 1 Capital		Non - controlling interests	Total equity
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)		Securities			
At 1 January 2021	685,019	34,250	342,511	803,028	-	34,961	1,410,240	3,310,009	438,438	392,608	4,141,055	
Profit for the period	-	-	-	-	-	-	160,766	160,766	-	8,013	168,779	
Other comprehensive income	-	-	-	-	-	-	24,123	24,123	-	2,153	26,276	
Total comprehensive income							184,889	184,889		10,166	195,055	
Issue of bonus shares (Note 7)	34,250	(34,250)	-	-	-	-	-	-	-	-	-	
Dividends paid (Note 7)	-	-	-	-	-	-	(137,004)	(137,004)	-	-	(137,004)	
Issuance of Perpetual Tier 1 Capital Securities (Note 8)	-	-	-	-	-	-	-	-	211,294	-	211,294	
Redemption of Perpetual Tier 1 Capital Securities (Note 8)	-	-	-	-	-	-	-	-	(210,700)	-	(210,700)	
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(858)	(858)	-	-	(858)	
Interest paid on perpetual Tier 1 capital Securities	-	-	-	-	-	-	(10,950)	(10,950)	-	-	(10,950)	
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(1,463)	(1,463)	-	(980)	(2,443)	
Issuance of Perpetual Tier 1 sukuk by a subsidiary (Note 7)	-	-	-	-	-	-	-	-	-	150,385	150,385	
Redemption of Perpetual Tier 1 sukuk by a subsidiary (Note 7)	-	-	-	-	-	-	-	-	-	(75,388)	(75,388)	
Transaction cost on issue of Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(365)	(365)	-	(245)	(610)	
Other movements	-	-	-	-	-	-	(525)	(525)	-	831	306	
At 30 June 2021	719,269		342,511	803,028		34,961	1,443,964	3,343,733	439,032	477,377	4,260,142	
At 1 January 2020	652,399	32,620	326,199	803,028	(39,258)	25,115	1,633,641	3,433,744	438,438	386,978	4,259,160	
Profit for the period	-	-	-	-	-	-	111,092	111,092	-	7,084	118,176	
Other comprehensive (loss)	-	-	-	-	-	-	(95,375)	(95,375)	-	(10,259)	(105,634)	
Total comprehensive income (loss)							15,717	15,717		(3,175)	12,542	
Issue of bonus shares (Note 7)	32,620	(32,620)	-	-	-	-	-	-	-	-	-	
Dividends paid (Note 7)	-	-	-	-	-	-	(226,373)	(226,373)	-	-	(226,373)	
Interest paid on perpetual Tier 1 capital Securities	-	-	-	-	-	-	(11,474)	(11,474)	-	-	(11,474)	
Dividend paid by a subsidiary to non- controlling interests	-	-	-	-	-	-	-	-	-	(10,465)	(10,465)	
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(1,562)	(1,562)	-	(1,046)	(2,608)	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	30,097	30,097	
Modification loss on deferral of loans instalments	-	-	-	-	-	-	(130,499)	(130,499)	-	(19,347)	(149,846)	
At 30 June 2020	685,019		326,199	803,028	(39,258)	25,115	1,279,450	3,079,553	438,438	383,042	3,901,033	

The attached notes 1 to 14 form part of this interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (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 2021 was authorised for issue in accordance with a resolution of the directors on 12 July 2021. 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 Al Shuhada Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

Basis of preparation

- a) The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting' except for point (b) below.
- b) The consolidated financial statements have been prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait (CBK) in the State of Kuwait. These regulations require banks and other financial institutions regulated by CBK to adopt the International Financial Reporting Standards with the following amendments:
 - Expected credit loss ("ECL") on credit facilities to be measured at the higher of ECL computed under IFRS 9 in accordance to the CBK guidelines or the provisions as required by CBK instructions along with its consequent impact on related disclosures; and
 - In the comparative periods, modification losses on financial assets (consumer and other instalment loans and credit card receivables) arising from payment holidays granted to customers in response to COVID-19, set out in the CBK circular no. 2/BS/IBS/461/2020, is recognized in retained earnings, instead of consolidated statement of income as required by IFRS 9.

The above framework is hereinafter referred to as 'IFRS as adopted by CBK for use by the State of Kuwait'.

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 2020. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

The accounting policies used in the preparation of this 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 2020 except for the adoption of new standards effective as of 1 January 2021 as noted below.

New standards, interpretations and amendments adopted by the Group

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued

These amendments had no impact on the interim condensed consolidated financial information of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

3 Provision charge for credit losses and impairment losses

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	KD 000's	KD 000's	KD 000's	KD 000's
Provision charge for credit facilities – specific	40,493	67,664	57,262	78,275
Provision charge for credit facilities – general	11,034	7,768	37,039	20,968
Expected credit losses charge (release)	267	(286)	119	27,401
Other impairment loss	2,786	-	2,786	-
	<u>54,580</u>	<u>75,146</u>	<u>97,206</u>	<u>126,644</u>

4 Taxation

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	KD 000's	KD 000's	KD 000's	KD 000's
National Labour Support Tax	2,039	755	3,963	2,765
Zakat	876	392	1,813	1,247
Contribution to Kuwait Foundation for the Advancement of Sciences	677	288	1,378	827
Overseas tax	5,002	4,969	9,273	10,601
	<u>8,594</u>	<u>6,404</u>	<u>16,427</u>	<u>15,440</u>

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	
	2021	2020	2021	2020
	KD 000's	KD 000's	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	76,458	33,419	160,766	111,092
Less: Interest paid on Perpetual Tier 1 capital Securities	(9,489)	(11,474)	(10,950)	(11,474)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	(1,463)	(1,562)	(1,463)	(1,562)
	<u>65,506</u>	<u>20,383</u>	<u>148,353</u>	<u>98,056</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>7,192,694</u>	<u>7,130,734</u>	<u>7,192,694</u>	<u>7,130,734</u>
Basic earnings per share	<u>9 fils</u>	<u>3 fils</u>	<u>21 fils</u>	<u>14 fils</u>

Earnings per share calculations for the period ended 30 June 2020 have been adjusted to take account of the bonus shares issued in 2021.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

6 Loans, advances and Islamic financing to customers

	30 June 2021	Audited 31 December 2020	30 June 2020
	KD 000's	KD 000's	KD 000's
Loans, advances and Islamic financing to customers	19,220,035	18,191,566	18,166,209
Provision for credit losses	(717,179)	(687,224)	(595,171)
	<u>18,502,856</u>	<u>17,504,342</u>	<u>17,571,038</u>

The available provision on non-cash facilities of KD 36,735 thousand (31 December 2020: KD 36,768 thousand, 30 June 2020: KD 31,039 thousand) is included under other liabilities. The total provision for cash and non cash credit facilities in accordance with CBK guidelines amounted to KD 753,914 thousand as at 30 June 2021 (31 December 2020: KD 723,992 thousand, 30 June 2020: KD 626,210 thousand)

The Expected Credit Losses (“ECL”) on credit facilities determined under IFRS 9 in accordance to the CBK guidelines amounted to KD 630,992 thousand as at 30 June 2021 (31 December 2020: 604,962 thousand, 30 June 2020: KD 524,723 thousand). CBK guidelines prescribe certain parameters to determine the ECL on credit facilities such as floors for estimating Probability of Default (PD), eligible collateral with haircuts for determining Loss Given Default (LGD), deemed minimum maturity for Stage 2 exposures, 100% credit conversion factors for utilised cash and non-cash facilities, Stage 3 ECLs at 100% of the defaulted exposure net of eligible collateral after applying applicable haircuts etc.

An analysis of the carrying amounts of credit facilities, and the corresponding ECL based on the staging criteria under IFRS 9 in accordance to the CBK guidelines is as follows:

<i>30 June 2021</i>	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans, advances and Islamic financing to customers	16,994,092	1,743,245	482,698	19,220,035
Contingent liabilities (Note 10)	3,636,114	768,894	32,334	4,437,342
ECL allowance for credit facilities	133,405	157,981	339,606	630,992
<i>31 December 2020</i>	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans, advances and Islamic financing to customers	16,075,390	1,755,459	360,717	18,191,566
Contingent liabilities (Note 10)	3,720,060	759,428	13,547	4,493,035
ECL allowance for credit facilities	129,668	192,709	282,585	604,962
<i>30 June 2020</i>	<i>Stage 1</i> <i>KD 000's</i>	<i>Stage 2</i> <i>KD 000's</i>	<i>Stage 3</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Loans, advances and Islamic financing to customers	16,611,563	1,213,698	340,948	18,166,209
Contingent liabilities (Note 10)	3,797,145	596,498	12,383	4,406,026
ECL allowance for credit facilities	133,193	111,214	280,316	524,723

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

6 Loans, advances and Islamic financing to customers (continued)

The increase in ECL allowance for credit facilities of KD 26,030 thousand from KD 604,962 thousand as at 31 December 2020 to KD 630,992 thousand as at 30 June 2021 is primarily due to the increase in Stage 3 exposures after considering the impact of eligible collateral, partly offset by reduction in Stage 2 ECLs reflecting the improving trend of forward-looking macroeconomic factors.

The increase in ECL allowance for credit facilities of KD 129,788 thousand from KD 394,935 thousand as at 31 December 2019 to KD 524,723 thousand as at 30 June 2020 was primarily due to the effects of the volatility witnessed in the range of macroeconomic factors and in the scenarios used for determination of ECL stemming from the on-set of COVID-19.

7 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2020: 7,500,000,000 shares and 30 June 2020: 7,500,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises 7,192,694,440 shares (31 December 2020: 6,850,185,181 shares and 30 June 2020: 6,850,185,181 shares) of 100 fils each.

b) Treasury shares

	30 June 2021	Audited 31 December 2020	30 June 2020
Number of treasury shares	-	-	59,010,000
Treasury shares as a percentage of total shares in issue	-	-	0.9%
Cost of treasury shares (KD thousand)	-	-	39,258
Market value of treasury shares (KD thousand)	-	-	48,447
Weighted average market value per treasury share (fils)	-	-	848

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 6 March 2021 approved 5% bonus shares (2020: 5%) and a cash dividend of 20 fils per share (2020: 35 fils per share) for the year ended 31 December 2020. The cash dividend amounting to KD 137,004 thousand was paid subsequently. The bonus shares increased the number of issued and fully paid up shares by 342,509,259 (2020: 326,199,294) and share capital by KD 34,250 thousand (2020: KD 32,620 thousand).

National Bank of Kuwait Group

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30 June 2021 (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>Actuarial valuation reserve</i>	<i>Proposed cash dividend</i>	<i>Total other reserves</i>
Balance as at 1 January 2021	117,058	1,332,007	(209,496)	25,257	14,409	(5,999)	137,004	1,410,240
Profit for the period	-	160,766	-	-	-	-	-	160,766
Other comprehensive income (loss)	-	-	(7,938)	32,061	-	-	-	24,123
Total comprehensive income (loss)	-	160,766	(7,938)	32,061	-	-	-	184,889
Dividends paid	-	-	-	-	-	-	(137,004)	(137,004)
Realised loss on equity investments at FVOCI	-	(15,255)	-	15,255	-	-	-	-
Interest paid on Perpetual Tier 1 Capital Securities	-	(10,950)	-	-	-	-	-	(10,950)
Transaction cost on issue of Perpetual Tier 1 Capital Securities	-	(858)	-	-	-	-	-	(858)
Transaction cost on issue of Perpetual Tier 1 Sukuk by a subsidiary	-	(365)	-	-	-	-	-	(365)
Profit distribution on Perpetual Tier 1 Sukuk by a subsidiary	-	(1,463)	-	-	-	-	-	(1,463)
Other movements	-	(525)	-	-	-	-	-	(525)
At 30 June 2021	117,058	1,463,357	(217,434)	72,573	14,409	(5,999)	-	1,443,964
At 1 January 2020	117,058	1,429,694	(207,046)	53,153	14,409	-	226,373	1,633,641
Profit for the period	-	111,092	-	-	-	-	-	111,092
Other comprehensive income (loss)	-	-	8,832	(104,207)	-	-	-	(95,375)
Total comprehensive income (loss)	-	111,092	8,832	(104,207)	-	-	-	15,717
Dividends paid	-	-	-	-	-	-	(226,373)	(226,373)
Interest paid on perpetual Tier 1 capital securities	-	(11,474)	-	-	-	-	-	(11,474)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	(1,562)	-	-	-	-	-	(1,562)
Realised loss on equity investments at FVOCI	-	(60)	-	60	-	-	-	-
Modification loss on deferral of loans instalments	-	(130,499)	-	-	-	-	-	(130,499)
At 30 June 2020	117,058	1,397,191	(198,214)	(50,994)	14,409	-	-	1,279,450

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30 June 2021 (Unaudited)

7 Shareholders' equity (continued)

e) Non-controlling interest

During 2016, Boubyan Bank K.S.C.P, a subsidiary of the Group, issued "Tier 1 Sukuk", through a Sharia's compliant Sukuk arrangement amounting to USD 250,000 thousand, callable in May 2021 or any profit payment date thereafter subject to certain redemption conditions. These Sukuk were redeemed during the period. Further, in April 2021, Boubyan Bank issued new Tier 1 Sukuk, through a similar Sharia's compliant Sukuk arrangement amounting to USD 500,000 thousand, callable after six-years in April 2027 (the "First Call Date") and bears an expected profit rate of 3.95% per annum until the first call date, payable semi-annually in arrears.

Tier 1 Sukuk is a perpetual security with no fixed redemption date and constitutes direct, unsecured, subordinated obligations subject to the terms and conditions of the Mudaraba Agreement. Tier 1 sukuk is eligible to be classified under equity in accordance with IAS 32 : Financial Instruments – Presentation. The Group did not subscribe to the Tier 1 Sukuk issue and the total amount is included in non-controlling interest in the consolidated statement of financial position.

8 Perpetual Tier 1 Capital Securities

The Bank issued the following Perpetual Tier 1 Capital Securities (the "Capital Securities"), through wholly owned special purpose vehicles:

	<i>30 June 2021 KD 000's</i>	<i>31 December 2020 KD 000's</i>	<i>30 June 2020 KD 000's</i>
USD 700,000 thousand (issued in February 2021 at an interest rate of 3.625% per annum, semi-annually in arrears, until the first call date in February 2027)	211,294	-	-
USD 750,000 thousand (issued in November 2019 at an interest rate of 4.5% per annum, semi-annually in arrears, until the first call date in November 2025)	227,738	227,738	227,738
USD 700,000 thousand (issued in April 2015 at an interest rate of 5.75% per annum, semi-annually in arrears, until the first call date in April 2021)	-	210,700	210,700
	<u>439,032</u>	<u>438,438</u>	<u>438,438</u>

The above mentioned Capital securities are subordinated, unsecured and are eligible to be classified under equity in accordance with IAS 32: Financial Instruments – Presentation. Payments of interest in respect of the Capital Securities may be cancelled (in whole or in part) at the sole discretion of the Bank on a non-cumulative basis. Any such cancellation is not considered an event of default. Payments of interest are treated as a deduction from equity. The Capital Securities have no maturity date and are callable (in whole but not in part) at par at the option of the Bank on the first call date and on every interest payment date thereafter, subject to certain conditions.

During the period, the Bank refinanced its outstanding USD 700,000 thousand Perpetual Tier 1 capital securities issued in April 2015 and callable in April 2021 through pursuing a tender buy-back and exercise of call option and simultaneously issuing new Perpetual Tier 1 capital securities amounting to USD 700,000 thousand.

National Bank of Kuwait Group

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30 June 2021 (Unaudited)

9 Segmental analysis

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, Islamic Banking and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Consumer and Private Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

Investment Banking and Asset Management

Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

Islamic Banking

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

Group Centre

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

International

International includes all branches, subsidiaries and associates outside Kuwait.

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 2021						
	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	149,157	71,322	17,270	95,539	6,617	112,629	452,534
Profit (loss) for the period	86,219	23,771	10,811	21,132	(5,705)	32,551	168,779
Total assets	4,879,552	5,138,975	71,832	6,945,102	2,866,748	11,676,423	31,578,632
Total liabilities	6,637,456	2,332,376	10,542	6,219,275	1,017,253	11,101,588	27,318,490

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

9 Segmental analysis (continued)

	30 June 2020						
	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	138,202	59,428	14,041	81,388	12,777	108,721	414,557
Profit for the period	73,628	22,560	7,751	17,623	(13,468)	10,082	118,176
Total assets	4,534,633	5,167,012	70,225	6,131,269	3,254,270	10,522,851	29,680,260
Total liabilities	6,148,682	2,710,349	18,726	5,529,076	240,396	11,131,998	25,779,227

10 Commitments and contingent liabilities

	30 June 2021 KD 000's	Audited 31 December 2020 KD 000's	30 June 2020 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	236,927	204,623	157,134
Letters of credit	364,997	432,378	401,014
Guarantees	3,835,418	3,856,034	3,847,878
	4,437,342	4,493,035	4,406,026

Irrevocable commitments to extend credit amount to KD 1,018,875 thousand (31 December 2020: KD 1,210,802 thousand, 30 June 2020: KD 794,456 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 67,739 thousand (31 December 2020: KD 62,319 thousand, 30 June 2020: KD 54,630 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021 (Unaudited)

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 June 2021	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	3,225,901	383,092	-	3,608,993
Equities and other investments	54,588	135,959	52,379	242,926
	<u>3,280,489</u>	<u>519,051</u>	<u>52,379</u>	<u>3,851,919</u>
Derivative financial instruments (Note 12)	-	(155,380)	-	(155,380)
31 December 2020	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	3,216,740	389,193	14,000	3,619,933
Equities and other investments	46,497	173,876	55,284	275,657
	<u>3,263,237</u>	<u>563,069</u>	<u>69,284</u>	<u>3,895,590</u>
Derivative financial instruments (Note 12)	-	(215,221)	-	(215,221)
30 June 2020	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	3,077,812	419,737	14,000	3,511,549
Equities and other investments	43,248	117,362	55,210	215,820
	<u>3,121,060</u>	<u>537,099</u>	<u>69,210</u>	<u>3,727,369</u>
Derivative financial instruments (Note 12)	-	(218,330)	-	(218,330)

National Bank of Kuwait Group

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30 June 2021 (Unaudited)

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.

	<i>At 1 January 2021 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 2021 KD 000's</i>	<i>Net gains in the interim consolidated statement of income KD 000's</i>
Debt securities	14,000	-	-	(14,000)	-	-	144
Equities and other investments	55,284	(833)	2,203	(4,174)	(101)	52,379	272
	<u>69,284</u>	<u>(833)</u>	<u>2,203</u>	<u>(18,174)</u>	<u>(101)</u>	<u>52,379</u>	<u>416</u>

	<i>At 1 January 2020 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 2020 KD 000's</i>	<i>Net gains(losses) in the interim consolidated statement of income KD 000's</i>
Debt securities	14,000	-	-	-	-	14,000	465
Equities and other investments	64,942	(9,268)	315	(983)	204	55,210	(1,460)
	<u>78,942</u>	<u>(9,268)</u>	<u>315</u>	<u>(983)</u>	<u>204</u>	<u>69,210</u>	<u>(995)</u>

12 Derivative financial instruments

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

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 2021 (Unaudited)

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 June 2021			Audited 31 December 2020			30 June 2020		
	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)	7,649	168,609	3,784,709	9,447	219,553	3,482,334	10,313	241,381	3,443,820
Interest rate swaps (others)	305	280	49,673	94	75	50,036	301	303	44,761
Forward foreign exchange contracts	13,667	8,112	3,470,498	13,299	18,433	2,736,116	20,357	7,617	3,114,009
	<u>21,621</u>	<u>177,001</u>	<u>7,304,880</u>	<u>22,840</u>	<u>238,061</u>	<u>6,268,486</u>	<u>30,971</u>	<u>249,301</u>	<u>6,602,590</u>

National Bank of Kuwait Group

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13 Related party transactions

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

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties			30 June 2021	31 December 2020	30 June 2020
	30 June 2021	31 December 2020	30 June 2020	30 June 2021	31 December 2020	30 June 2020			
							KD 000's	Audited KD 000's	KD 000's
Board Members									
Loans (secured)	3	3	3	16	15	17	53,829	72,909	67,754
Contingent liabilities	-	-	-	8	8	9	20,407	23,109	21,832
Credit cards	5	4	6	21	24	17	63	90	46
Deposits	10	9	9	59	54	62	53,979	43,041	36,166
Collateral against credit facilities	3	3	3	12	12	13	232,737	253,188	283,177
Interest and fee income							823	3,194	2,029
Interest expense							112	121	92
Purchase of equipment and other expenses							54	55	32
Executive Officers									
Loans	5	1	3	2	5	7	3,751	3,257	3,678
Contingent liabilities	3	3	3	1	-	-	1,233	2	2
Credit cards	6	5	11	11	10	8	39	45	25
Deposits	14	12	13	35	33	40	11,269	8,874	9,179
Interest and fee income							43	479	337
Interest expense							28	90	54

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30 June 2021 (Unaudited)

13 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	KD 000's	KD 000's	KD 000's	KD 000's
Salaries and other short term benefits	1,017	603	1,920	1,589
Post-employment benefits	258	57	307	127
Share based compensation	249	243	400	421
	<u>1,524</u>	<u>903</u>	<u>2,627</u>	<u>2,137</u>

14 Impact of COVID-19

The COVID-19 pandemic spread rapidly across global geographies causing massive disruption to business and economic activities and bringing unprecedented uncertainties to the global economic environment. Fiscal and monetary authorities worldwide launched extensive responses designed to mitigate the severe consequences of the pandemic.

COVID-19 support measures

During the year 2020, Central Bank of Kuwait (CBK) implemented various measures targeted at reinforcing the banking sectors ability to play a vital role in the economy. Those measures are disclosed in the Group's annual consolidated financial statements for the year ended 31 December 2020.

2021 consumer and other instalment loans deferral scheme

Kuwait banks announced postponement of payment of consumer and instalment loans to eligible customers, upon request, in accordance with the CBK Circular No. 2/BS/IBS/IS/IIS/FS/476/2021 dated 18 April 2021 concerning the implementing provisions of Article No. (2) of Law No. (3) of 2021 ("the Law") regarding the deferral of the financial obligations for a six-month period with cancellation of interest and profits resulting from this deferral ("the 2021 scheme"). The cost of instalment deferral is fully borne by the Government of Kuwait in accordance with the Law.

The Group implemented the 2021 scheme by postponing the instalments for a six-month period from the customer request date with a corresponding extension of the facility tenure. The instalment deferral resulted in a loss to the Group arising from the modification of contractual cash-flows, provisionally estimated at KD 141,674 thousand in accordance with IFRS 9. This loss was offset by an equivalent amount receivable from the Government of Kuwait as Government Grant in accordance with the Law. The Group has recorded the Government Grant income by setting it off against the modification loss from the 2021 scheme. The Government grant receivable is included in other assets in the interim condensed consolidated statement of financial position.

Expected Credit Loss (ECL) estimates

The Group considered the potential impact of the uncertainties caused by the COVID-19 pandemic together with the associated economic support and relief measures of governments and central banks in its estimation of ECL requirements for the period ended 30 June 2021. The Group has considered the impact of COVID-19 on the relevant qualitative and quantitative factors when determining any significant increase in credit risk (SICR) and in assessing indicators of impairment for exposures to potentially affected sectors. Furthermore, macro-economic factors are updated to take into consideration the specific impacts of COVID-19. Notwithstanding the above, ECL requirement for credit facilities estimated as at 30 June 2021 continues to be lower than the provisions required as per CBK instructions. In accordance with Group accounting policy, the higher amount, being the provision required as per CBK instructions, is therefore recognized as the provision requirement for credit losses on credit facilities.