

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2019 (UNAUDITED)



Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18-21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte.

**Deloitte & Touche
Al-Wazzan & Co.**

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174, Safat 13062
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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 2019, 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 of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the nine months period ended 30 September 2019 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 2019 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

BADER A. AL-WAZZAN
LICENCE NO. 62 A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

6 October 2019
Kuwait

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2019 (Unaudited)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Interest income		248,397	233,049	740,777	657,684
Interest expense		106,602	87,075	314,924	235,738
Net interest income		141,795	145,974	425,853	421,946
Murabaha and other Islamic financing income		53,879	48,373	155,339	136,546
Finance cost and Distribution to depositors		23,084	16,124	64,215	43,463
Net income from Islamic financing		30,795	32,249	91,124	93,083
Net interest income and net income from Islamic financing		172,590	178,223	516,977	515,029
Net fees and commissions		38,125	37,969	116,825	114,433
Net investment income		(1,802)	(6,615)	6,913	1,448
Net gains from dealing in foreign currencies		11,758	10,204	31,028	29,235
Other operating income		208	(164)	1,012	1,653
Non-interest income		48,289	41,394	155,778	146,769
Net operating income		220,879	219,617	672,755	661,798
Staff expenses		43,108	39,938	129,435	119,825
Other administrative expenses	5	25,349	22,615	70,809	69,044
Depreciation of premises and equipment	5	6,698	3,652	19,165	10,892
Amortisation of intangible assets		806	774	2,384	2,323
Operating expenses		75,961	66,979	221,793	202,084
Operating profit before provision for credit losses and impairment losses		144,918	152,638	450,962	459,714
Provision charge for credit losses and impairment losses	3	37,531	51,490	104,656	145,422
Operating profit before taxation		107,387	101,148	346,306	314,292
Taxation	4	7,841	8,276	26,324	24,680
Profit for the period		99,546	92,872	319,982	289,612
Attributable to:					
Shareholders of the Bank		93,075	86,539	302,168	272,395
Non-controlling interests		6,471	6,333	17,814	17,217
		99,546	92,872	319,982	289,612
Basic earnings per share attributable to shareholders of the Bank	6	14 fils	13 fils	46 fils	41 fils

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2019 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Profit for the period	99,546	92,872	319,982	289,612
Other comprehensive income:				
Investment in debt securities measured at FVOCI:				
Net change in fair value	19,357	15,199	28,031	4,090
Net transfer to consolidated statement of income	(130)	71	2,948	116
	<u>19,227</u>	<u>15,270</u>	<u>30,979</u>	<u>4,206</u>
Share of other comprehensive income (loss) of associates	3	(114)	(61)	(125)
Exchange differences on translation of foreign operations	4,268	11,032	16,187	5,039
	<u>23,498</u>	<u>26,188</u>	<u>47,105</u>	<u>9,120</u>
Net gain on investments in equity instruments designated at FVOCI (not reclassifiable to consolidated statement of income in subsequent periods)	<u>16</u>	<u>13</u>	<u>59</u>	<u>30</u>
Other comprehensive income for the period	23,514	26,201	47,164	9,150
Total comprehensive income for the period	123,060	119,073	367,146	298,762
Attributable to:				
Shareholders of the Bank	115,728	111,431	347,540	282,818
Non-controlling interests	7,332	7,642	19,606	15,944
	<u>123,060</u>	<u>119,073</u>	<u>367,146</u>	<u>298,762</u>

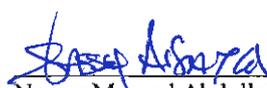
The attached notes 1 to 12 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2019 (Unaudited)

		30 September 2019	Audited 31 December 2018	30 September 2018
	Notes	KD 000's	KD 000's	KD 000's
Assets				
Cash and short term funds		3,579,791	2,966,707	2,944,212
Central Bank of Kuwait bonds		825,140	809,871	798,367
Kuwait Government treasury bonds		709,174	872,042	868,407
Deposits with banks		2,169,763	2,364,242	2,306,206
Loans, advances and Islamic financing to customers		16,359,257	15,503,402	15,407,046
Investment securities		3,995,648	3,678,032	3,565,964
Investment in associates		33,323	31,425	33,760
Land, premises and equipment		422,447	362,801	352,114
Goodwill and other intangible assets		583,086	578,973	579,708
Other assets		231,608	260,445	269,932
Total assets		28,909,237	27,427,940	27,125,716
Liabilities				
Due to banks and other financial institutions		7,505,022	8,090,484	8,010,029
Customer deposits		15,786,835	14,388,836	14,069,599
Certificates of deposit issued		696,959	451,128	619,871
Global medium term notes		228,638	220,124	216,247
Subordinated Tier 2 bonds		124,793	124,768	124,759
Other liabilities		650,581	451,290	445,807
Total liabilities		24,992,828	23,726,630	23,486,312
Equity				
Share capital	7	652,399	621,332	621,332
Proposed bonus shares	7	-	31,067	-
Statutory reserve		310,666	310,666	295,872
Share premium account		803,028	803,028	803,028
Treasury shares	7	(45,061)	(65,425)	(65,425)
Treasury shares reserve		22,800	14,010	14,010
Other reserves	7	1,572,418	1,448,579	1,437,041
Equity attributable to shareholders of the Bank		3,316,250	3,163,257	3,105,858
Perpetual Tier 1 Capital Securities		210,700	210,700	210,700
Non-controlling interests		389,459	327,353	322,846
Total equity		3,916,409	3,701,310	3,639,404
Total liabilities and equity		28,909,237	27,427,940	27,125,716


 Nasser Musaed Abdullah Al-Sayer
 Chairman

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2019 (Unaudited)

	Notes	Nine months ended 30 September	
		2019 KD 000's	2018 KD 000's
Operating activities			
Profit for the period		319,982	289,612
Adjustments for:			
Net investment income		(6,913)	(1,448)
Depreciation of premises and equipment		19,165	10,892
Amortisation of intangible assets		2,384	2,323
Provision charge for credit losses and impairment losses	3	104,656	145,422
Share based payment reserve		-	97
Taxation	4	26,324	24,680
Operating profit before changes in operating assets and liabilities		465,598	471,578
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(15,269)	(142,776)
Kuwait Government treasury bonds		162,868	207,804
Deposits with banks		194,479	181,982
Loans, advances and Islamic financing to customers		(957,230)	(1,038,665)
Other assets		26,276	(19,936)
Due to banks and other financial institutions		(585,462)	540,726
Customer deposits		1,397,999	289,992
Certificates of deposit issued		245,831	129,036
Other liabilities		179,989	49,109
Tax paid		(26,523)	(22,961)
Net cash from operating activities		1,088,556	645,889
Investing activities			
Purchase of investment securities		(1,097,091)	(1,357,596)
Proceeds from sale/redemption of investment securities		812,149	1,140,602
Dividend income		1,453	1,577
Dividend from associates		153	236
Acquisition of non-controlling interests		-	(13,744)
Proceeds from sale of land, premises and equipment		761	1,627
Purchase of land, premises and equipment		(40,541)	(40,356)
Net cash used in investing activities		(323,116)	(267,654)
Financing activities			
Proceeds from sale of treasury shares		29,154	12,390
Dividends paid		(214,344)	(174,883)
Interest paid on Perpetual Tier 1 capital securities		(6,125)	(6,038)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary		(2,563)	(2,544)
Dividend paid by a subsidiary to non-controlling interests		(8,093)	(6,588)
Capital increase in a subsidiary contributed by non-controlling interest		49,615	-
Net cash used in financing activities		(152,356)	(177,663)
Increase in cash and short term funds		613,084	200,572
Cash and short term funds at 1 January		2,966,707	2,743,640
Cash and short term funds at 30 September		3,579,791	2,944,212

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

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2019 (Unaudited)

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	
Balance as at 1 January 2019	621,332	31,067	310,666	803,028	(65,425)	14,010	1,448,579	3,163,257	210,700	327,353	3,701,310
Profit for the period	-	-	-	-	-	-	302,168	302,168	-	17,814	319,982
Other comprehensive income	-	-	-	-	-	-	45,372	45,372	-	1,792	47,164
Total comprehensive income	-	-	-	-	-	-	347,540	347,540	-	19,606	367,146
Issue of bonus shares (Note 7)	31,067	(31,067)	-	-	-	-	-	-	-	-	-
Sale of treasury shares	-	-	-	-	20,364	8,790	-	29,154	-	-	29,154
Dividends paid (Note 7)	-	-	-	-	-	-	(214,344)	(214,344)	-	-	(214,344)
Interest paid on perpetual Tier 1 Capital Securities	-	-	-	-	-	-	(6,125)	(6,125)	-	-	(6,125)
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(8,093)	(8,093)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	-	-	-	-	-	(1,535)	(1,535)	-	(1,028)	(2,563)
Increase in holding in a subsidiary	-	-	-	-	-	-	(1,551)	(1,551)	-	(2,137)	(3,688)
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	-	53,303	53,303
Other movements	-	-	-	-	-	-	(146)	(146)	-	455	309
At 30 September 2019	652,399	-	310,666	803,028	(45,061)	22,800	1,572,418	3,316,250	210,700	389,459	3,916,409
Balance as 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	-	-	-	-	-	-	(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 interest	-	-	-	-	-	-	(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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

30 September 2019 (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 nine months period ended 30 September 2019 was authorised for issue in accordance with a resolution of the directors on 6 October 2019. 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 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 2018 except for the changes described below arising from the adoption of IFRS 16 ‘Leases’ effective from 1 January 2019.

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with the regulations issued by Central Bank of Kuwait (CBK) for financial services institutions in the State of Kuwait. The regulations require the expected credit loss on credit facilities to be measured at the higher of the amount computed under IFRS 9 in accordance with CBK guidelines or provisions as required by CBK instructions, with consequent impact on related disclosures. The regulations also require adoption of all other requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 2018. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Changes in accounting policies

Adoption of IFRS 16 ‘Leases’

The Group has adopted IFRS 16 issued in January 2016 with a date of initial application of 1 January 2019. IFRS 16 replaces IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group, as a lessee, has adopted the following accounting policy in respect of its leases:

At inception of a contract, the Group assesses whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group’s incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2019 (Unaudited)

3 Provision charge for credit losses and impairment losses

	Three months ended 30 September		Nine months ended 30 September	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Provision charge for credit facilities – specific	33,517	49,368	91,972	134,319
Provision charge for credit facilities – general	1,278	1,058	9,358	2,603
Other impairment losses	2,736	1,064	3,326	8,500
	<u>37,531</u>	<u>51,490</u>	<u>104,656</u>	<u>145,422</u>

4 Taxation

	Three months ended 30 September		Nine months ended 30 September	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
National Labour Support Tax	2,327	2,164	7,623	6,841
Zakat	1,067	968	3,393	3,019
Contribution to Kuwait Foundation for the Advancement of Sciences	913	842	2,811	2,483
Overseas tax	3,534	4,302	12,497	12,337
	<u>7,841</u>	<u>8,276</u>	<u>26,324</u>	<u>24,680</u>

5 Impact on adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. Lease liabilities and right-of-use of assets were both recorded at the present value of future lease payments, thus no impact was recorded on the opening retained earnings.

The Group presents right-of-use assets in 'land, premises and equipment' and lease liabilities in 'other liabilities' in the interim condensed consolidated statement of financial position. The carrying value of right-of-use assets and lease liabilities as at 30 September 2019 amounted to KD 31,542 thousand and KD 29,546 thousand respectively.

Depreciation charge for right-of-use assets for the period amounted to KD 6,870 thousand and is included in 'depreciation of premises and equipment' in the interim condensed consolidated statement of income. Rent expenses included in 'other administrative expenses' is lower to the extent of KD 6,996 thousand during the period as a result of applying IFRS 16.

6 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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2019 (Unaudited)

6 Earnings per share (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Profit attributable to shareholders of the Bank	93,075	86,539	302,168	272,395
Less: Interest paid on Perpetual Tier 1 capital securities	-	-	(6,125)	(6,038)
Less: Profit distribution on Perpetual Tier 1 sukuk by a subsidiary attributable to shareholders of the Bank	-	-	(1,535)	(1,506)
	<u>93,075</u>	<u>86,539</u>	<u>294,508</u>	<u>264,851</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>6,456,227</u>	<u>6,430,326</u>	<u>6,440,230</u>	<u>6,426,112</u>
Basic earnings per share	<u>14 fils</u>	<u>13 fils</u>	<u>46 fils</u>	<u>41 fils</u>

Earnings per share calculations for the period ended 30 September 2018 have been adjusted to take account of the bonus shares issued in 2019.

7 Shareholders' equity

a) The authorised share capital of the Bank comprises 7,500,000,000 shares (31 December 2018: 7,500,000,000 shares and 30 September 2018: 7,500,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises 6,523,985,887 shares (31 December 2018: 6,213,319,893 shares and 30 September 2018: 6,213,319,893 shares) of 100 fils each.

b) Treasury shares

	30 September 2019	Audited 31 December 2018	30 September 2018
Number of treasury shares	64,506,852	89,200,000	89,200,000
Treasury shares as a percentage of total shares in issue	1.0%	1.4%	1.4%
Cost of treasury shares (KD thousand)	45,061	65,425	65,425
Market value of treasury shares (KD thousand)	61,088	74,393	74,304
Weighted average market value per treasury share (fils)	938	784	770

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 9 March 2019 approved 5% bonus shares (2018: 5%) and a cash dividend of 35 fils per share (2018: 30 fils per share) for the year ended 31 December 2018. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 310,665,994 (2018: 295,872,375) and share capital by KD 31,067 thousand (2018: KD 29,588 thousand).

National Bank of Kuwait Group
 NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
 INFORMATION

30 September 2019 (Unaudited)

7 Shareholders' equity (continued)

d) Other reserves	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total other reserves
	117,058	1,315,182	(225,725)	13,311	14,409	214,344	1,448,579
	-	302,168	-	-	-	-	302,168
	-	-	15,782	29,590	-	-	45,372
Total comprehensive income	-	302,168	15,782	29,590	-	-	347,540
Dividends paid	-	-	-	-	(214,344)	-	(214,344)
Interest paid on perpetual Tier 1 capital securities	-	(6,125)	-	-	-	-	(6,125)
Profit distribution on Perpetual Tier 1 sukuk by a subsidiary	-	(1,535)	-	-	-	-	(1,535)
Realised gain on equity investments at FVOCI	-	2,292	-	(2,292)	-	-	-
Increase in holding in a subsidiary	-	(1,551)	-	-	-	-	(1,551)
Other movements	-	(146)	-	-	-	-	(146)
At 30 September 2019	117,058	1,610,285	(209,943)	40,609	14,409	-	1,572,418
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	-	(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	-	4,806	-	-	272,395
Other comprehensive income	-	-	5,617	-	-	-	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

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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 2019						
	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>Nine months</i>							
Net operating income	216,324	120,347	21,212	113,294	37,130	164,448	672,755
Profit for the period	134,096	41,850	11,988	45,252	3,055	83,741	319,982
Total assets	4,662,952	5,048,390	60,794	5,032,954	3,691,700	10,412,447	28,909,237
Total liabilities	5,441,446	2,517,689	8,655	4,387,912	1,388,172	11,248,954	24,992,828

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8 Segmental analysis (continued)

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
<i>Nine months</i>							
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

9 Commitments and contingent liabilities

	30 September 2019 KD 000's	Audited 31 December 2018 KD 000's	30 September 2018 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	254,610	223,920	272,805
Letters of credit	507,613	456,359	435,064
Guarantees	3,913,155	3,707,656	3,748,283
	<u>4,675,378</u>	<u>4,387,935</u>	<u>4,456,152</u>

Irrevocable commitments to extend credit amount to KD 815,872 thousand (31 December 2018: KD 615,778 thousand, 30 September 2018: KD 648,265 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 26,739 thousand (31 December 2018: KD 36,399 thousand, 30 September 2018: KD 40,294 thousand).

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10 Fair value of financial instruments

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

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

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

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

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

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

<i>30 September 2019</i>	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Debt securities	2,621,024	356,943	14,000	2,991,967
Equities and other investments	46,498	71,883	77,600	195,981
	<u>2,667,522</u>	<u>428,826</u>	<u>91,600</u>	<u>3,187,948</u>
Derivative financial instruments (Note 11)	-	(108,822)	-	(108,822)
 <i>31 December 2018</i>	 Level 1 KD 000's	 Level 2 KD 000's	 Level 3 KD 000's	 Total KD 000's
Debt securities	2,168,487	460,505	14,000	2,642,992
Equities and other investments	44,979	57,463	83,787	186,229
	<u>2,213,466</u>	<u>517,968</u>	<u>97,787</u>	<u>2,829,221</u>
Derivative financial instruments (Note 11)	-	16,793	-	16,793
 <i>30 September 2018</i>	 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
	<u>2,187,399</u>	<u>406,540</u>	<u>100,831</u>	<u>2,694,770</u>
Derivative financial instruments (Note 11)	-	34,536	-	34,536

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10 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 2019 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 2019 KD 000's	Net gains (losses) in the interim condensed consolidated statement of income KD 000's
Debt securities	14,000	-	-	-	-	14,000	730
Equities and other investments	83,787	(3,343)	1,568	(4,843)	431	77,600	(1,914)
	<u>97,787</u>	<u>(3,343)</u>	<u>1,568</u>	<u>(4,843)</u>	<u>431</u>	<u>91,600</u>	<u>(1,184)</u>

	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)
	<u>79,864</u>	<u>(3,554)</u>	<u>28,268</u>	<u>(3,876)</u>	<u>129</u>	<u>100,831</u>	<u>(1,136)</u>

11 Derivative financial instruments

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2019 (Unaudited)

11 Derivative financial instruments (continued)

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

Interest rate swaps

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

Forward foreign exchange

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

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

	30 September 2019			Audited 31 December 2018			30 September 2018		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	5,555	106,770	2,666,037	40,062	27,814	2,354,863	60,852	29,719	2,184,312
Interest rate swaps (others)	346	336	83,842	429	408	85,995	501	475	88,415
Forward foreign exchange contracts	10,110	17,727	3,277,056	15,912	11,388	2,771,024	7,889	4,512	2,493,949
	<u>16,011</u>	<u>124,833</u>	<u>6,026,935</u>	<u>56,403</u>	<u>39,610</u>	<u>5,211,882</u>	<u>69,242</u>	<u>34,706</u>	<u>4,766,676</u>

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12 Related party transactions

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

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers		Number of related parties				30 September 2019	30 September 2018	30 September 2019	30 September 2018	30 September 2018	30 September 2018	30 September 2018
	30 September 2019	31 December 2018	30 September 2019	30 September 2018	31 December 2018	30 September 2018							
Board Members	3	3	15	15	16	16	76,162	115,322	116,695				
Loans (secured)	-	-	9	9	10	10	31,311	27,860	26,198				
Contingent liabilities	5	6	11	11	11	11	84	56	68				
Credit cards	7	9	55	59	68	68	36,603	34,207	43,186				
Deposits	3	3	12	13	16	16	309,141	315,165	305,550				
Collateral against credit facilities							2,645	4,876	3,614				
Interest and fee income							240	168	116				
Interest expense							4	5	4				
Purchase of equipment and other expenses													
Executive Officers	2	2	7	6	2	2	3,013	2,552	2,213				
Loans	3	4	-	-	-	-	2	2	2				
Contingent liabilities	13	13	6	4	2	2	119	87	48				
Credit cards	13	13	38	37	33	33	7,922	6,141	4,775				
Deposits							83	119	77				
Interest and fee income							94	59	40				
Interest expense													
Associates													
Placements							62,193	19,309	7,353				
Acceptances							15,659	530	30,315				

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30 September 2019 (Unaudited)

12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2019 KD 000's	2018 KD 000's	2019 KD 000's	2018 KD 000's
Salaries and other short term benefits	2,501	1,957	7,395	5,825
Post-employment benefits	105	56	362	322
Share based compensation	267	381	988	870
	<u>2,873</u>	<u>2,394</u>	<u>8,745</u>	<u>7,017</u>