

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 March 2012 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2012 (Unaudited)

	Notes	Three months ended 31 March	
		2012 KD 000's	2011 KD 000's
Interest income		126,643	121,842
Interest expense		31,325	28,165
Net interest income		95,318	93,677
Net fees and commissions		26,039	25,601
Net gains from investment securities		1,368	1,449
Net gains from dealing in foreign currencies		5,973	5,515
Dividend income		695	1,793
Share of results of associates		3,993	4,164
Other operating income		335	394
Non-interest income		38,403	38,916
Net operating income		133,721	132,593
Staff expenses		22,455	23,146
Other administrative expenses		12,425	14,038
Depreciation of premises and equipment		3,054	2,849
Amortisation of intangible assets		1,012	1,042
Operating expenses		38,946	41,075
Operating profit before provision for credit losses		94,775	91,518
Provision charge for credit losses - specific		9,185	5,581
Provision (release) charge for credit losses - general		(1,166)	1,024
Operating profit before taxation		86,756	84,913
Taxation	3	5,460	3,856
Profit for the period		81,296	81,057
Attributable to:			
Shareholders of the Bank		81,035	80,792
Non-controlling interests		261	265
		81,296	81,057
Basic and diluted earnings per share attributable to shareholders of the Bank	4	19 fils	19 fils

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2012 (Unaudited)

	Three months ended 31 March	
	2012	2011
	KD 000's	KD 000's
Profit for the period	81,296	81,057
Other comprehensive income		
Change in fair value of investments available for sale	3,475	384
Net gains on investments available for sale transferred to consolidated statement of income	(1,220)	(1,285)
Share of other comprehensive loss of associates	(109)	(126)
Exchange differences on translation of foreign operations	868	(12,137)
Other comprehensive income (loss) for the period included in equity	3,014	(13,164)
Total comprehensive income for the period	84,310	67,893
Attributable to:		
Shareholders of the Bank	84,114	67,844
Non-controlling interests	196	49
	84,310	67,893

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012 (Unaudited)

		Audited	
	31 March	31 December	31 March
	2012	2011	2011
Notes	KD 000's	KD 000's	KD 000's
Assets			
Cash and short term funds	1,750,771	1,271,252	2,341,417
Central Bank of Kuwait bonds	508,882	454,378	557,776
Kuwait Government treasury bills	2,498	-	-
Kuwait Government treasury bonds	388,824	396,304	428,804
Deposits with banks	823,305	787,517	338,489
Loans and advances to customers	8,270,780	8,182,226	7,911,660
Investment securities	1,607,257	1,503,035	1,356,209
Investment in associates	533,589	527,978	506,817
Land, premises and equipment	175,085	174,201	174,135
Goodwill and other intangible assets	213,669	215,503	219,263
Other assets	119,332	114,454	74,936
Total assets	14,393,992	13,626,848	13,909,506
Liabilities			
Due to banks and other financial institutions	4,733,712	4,310,339	4,404,748
Customer deposits	7,196,782	6,799,192	7,160,859
Other liabilities	199,135	180,744	195,533
Total liabilities	12,129,629	11,290,275	11,761,140
Equity			
Share capital - authorised, issued and fully paid shares of 100 fils each	435,349	395,772	395,772
Proposed bonus shares	6	-	39,577
Statutory reserve	197,886	197,886	179,897
Share premium account	699,840	699,840	699,840
Treasury shares	5	(30,924)	(33,415)
Treasury shares reserve	18,087	20,403	20,544
General reserve	117,058	117,058	117,058
Retained earnings	810,547	729,601	725,107
Foreign currency translation reserve	(32,446)	(33,032)	(23,751)
Cumulative changes in fair values	25,850	23,357	29,786
Share based payment reserve	10,955	10,469	8,879
Total share capital and reserves	2,252,202	2,167,516	2,135,449
Proposed cash dividend	6	-	157,092
Equity attributable to shareholders of the Bank	2,252,202	2,324,608	2,135,449
Non-controlling interests	12,161	11,965	12,917
Total equity	2,264,363	2,336,573	2,148,366
Total liabilities and equity	14,393,992	13,626,848	13,909,506

Mohammed Abdul Rahman Al-Bahar
Chairman

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2012 (Unaudited)

	Notes	Three months ended 31 March	
		2012 KD 000's	2011 KD 000's
Operating activities			
Profit for the period		81,296	81,057
Adjustments for:			
Net gains from investment securities		(1,368)	(1,449)
Dividend income		(695)	(1,793)
Share of results of associates		(3,993)	(4,164)
Depreciation of premises and equipment		3,054	2,849
Amortisation of intangible assets		1,012	1,042
Provision charge for credit losses		8,019	6,605
Share based payment reserve		486	582
Taxation	3	5,460	3,856
Operating profit before changes in operating assets and liabilities		93,271	88,585
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		(54,504)	(122,534)
Kuwait Government treasury bills		(2,498)	-
Kuwait Government treasury bonds		7,480	(6,667)
Deposits with banks		(35,788)	377,933
Loans and advances to customers		(96,852)	(64,686)
Other assets		(4,878)	(2,321)
Due to banks and other financial institutions		423,373	330,868
Customer deposits		397,590	775,621
Other liabilities		14,669	(8,102)
Tax paid		(2,364)	-
Net cash from operating activities		739,499	1,368,697
Investing activities			
Purchase of investment securities		(532,338)	(532,642)
Proceeds from sale/redemption of investment securities		431,739	497,024
Dividend income		695	1,793
Proceeds from sale of land, premises and equipment		16	194
Purchase of land, premises and equipment		(3,954)	(2,829)
Net cash used in investing activities		(103,842)	(36,460)
Financing activities			
Dividends paid	6	(157,181)	(143,567)
Purchase of treasury shares		(57)	(7,206)
Proceeds from sale of treasury shares		232	161
Net cash used in financing activities		(157,006)	(150,612)
Increase in cash and short term funds		478,651	1,181,625
Exchange difference on translation of foreign operations		868	(12,137)
Cash and short term funds at 1 January		1,271,252	1,171,929
Cash and short term funds at 31 March		1,750,771	2,341,417

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2012 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank													Non-controlling interests	Total
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	General reserve	Retained earnings	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Proposed cash dividend	Total		
At 1 January 2012	395,772	39,577	197,886	699,840	(33,415)	20,403	117,058	729,601	(33,032)	23,357	10,469	157,092	2,324,608	11,965	2,336,573
Profit for the period	-	-	-	-	-	-	-	81,035	-	-	-	-	81,035	261	81,296
Other comprehensive income	-	-	-	-	-	-	-	-	586	2,493	-	-	3,079	(65)	3,014
Total comprehensive income	-	-	-	-	-	-	-	81,035	586	2,493	-	-	84,114	196	84,310
Issue of bonus shares (Note 6)	39,577	(39,577)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(89)	-	-	-	89	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(157,181)	(157,181)	-	(157,181)
Sale of treasury shares	-	-	-	-	2,548	(2,316)	-	-	-	-	-	-	232	-	232
Purchase of treasury shares	-	-	-	-	(57)	-	-	-	-	-	-	-	(57)	-	(57)
Share based payment	-	-	-	-	-	-	-	-	-	-	486	-	486	-	486
At 31 March 2012	435,349	-	197,886	699,840	(30,924)	18,087	117,058	810,547	(32,446)	25,850	10,955	-	2,252,202	12,161	2,264,363
At 1 January 2011	359,793	35,979	179,897	699,840	(12,410)	22,316	117,058	644,377	(11,578)	30,561	8,297	143,505	2,217,635	12,868	2,230,503
Profit for the period	-	-	-	-	-	-	-	80,792	-	-	-	-	80,792	265	81,057
Other comprehensive income	-	-	-	-	-	-	-	-	(12,173)	(775)	-	-	(12,948)	(216)	(13,164)
Total comprehensive income	-	-	-	-	-	-	-	80,792	(12,173)	(775)	-	-	67,844	49	67,893
Issue of bonus shares (Note 6)	35,979	(35,979)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividends on treasury shares sold	-	-	-	-	-	-	-	(62)	-	-	-	62	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	-	-	-	-	-	(143,567)	(143,567)	-	(143,567)
Sale of treasury shares	-	-	-	-	1,933	(1,772)	-	-	-	-	-	-	161	-	161
Purchase of treasury shares	-	-	-	-	(7,206)	-	-	-	-	-	-	-	(7,206)	-	(7,206)
Share based payment	-	-	-	-	-	-	-	-	-	-	582	-	582	-	582
At 31 March 2011	395,772	-	179,897	699,840	(17,683)	20,544	117,058	725,107	(23,751)	29,786	8,879	-	2,135,449	12,917	2,148,366

The attached notes 1 to 11 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K. (“the Bank”) and its subsidiaries (collectively “the Group”) for the period ended 31 March 2012 were authorised for issue in accordance with a resolution of the directors on 8 April 2012. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank with the Central Bank of Kuwait. The Bank’s head office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2011.

The annual consolidated financial statements for the year ended 31 December 2011 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39, ‘Financial Instruments: Recognition and Measurement’, requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2011. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

Amendments to IFRSs which are effective for annual accounting period starting from 1 January 2012 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Taxation

	Three months ended 31 March	
	2012	2011
	KD 000’s	KD 000’s
Contribution to Kuwait Foundation for the Advancement of Sciences	563	577
National labour support tax	1,556	1,608
Zakat	624	668
Taxation on overseas branches and subsidiaries	2,717	1,003
	<u>5,460</u>	<u>3,856</u>

4 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share options does not result in any change from the reported basic earnings per share.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

4 Earnings per share (continued)

	Three months ended 31 March	
	2012 KD 000's	2011 KD 000's
Profit attributable to shareholders of the bank	81,035	80,792
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	4,321,932	4,341,996
Basic and diluted earnings per share	19 fils	19 fils

Earnings per share calculations for the period ended 31 March 2011 have been adjusted to take account of the bonus shares issued in 2012.

5 Treasury shares

The Bank held the following treasury shares at 31 March 2012.

	31 March 2012	Audited 31 December 2011	31 March 2011
Number of treasury shares	30,968,287	30,423,135	15,721,998
Treasury shares as a percentage of total shares in issue	0.7%	0.8%	0.4%
Cost of treasury shares (KD thousand)	30,924	33,415	17,683
Market value of treasury shares (KD thousand)	33,446	34,074	17,923

Movement in treasury shares was as follows:

	No. of shares	
	2012	2011
Balance as at 1 January	30,423,135	10,294,498
Purchases	50,000	6,160,000
Sales	(2,324,015)	(1,607,607)
Bonus issue	2,819,167	875,107
Balance as at 31 March	30,968,287	15,721,998

6 Dividends paid

Annual General Assembly meeting of the shareholders held on 11 March 2012 approved 10% bonus shares (2010: 10%) and a cash dividend of 40 fils per share (2010: 40 fils per share) for the year ended 31 December 2011. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 395,772,511 (2010: 359,793,192) and share capital by KD 39,577 thousand (2010: KD 35,979 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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31 March 2012 (Unaudited)

7 Segmental analysis

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its domestic operations, the Group segments its business into Consumer and Private Banking, Corporate Banking, Investment Banking and Asset Management, 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.

Group Centre

Group Centre includes treasury, investments, associate in Kuwait 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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

7 Segmental analysis (continued)

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

	31 March 2012					
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Center KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>						
Net operating income	<u>46,005</u>	<u>42,050</u>	<u>7,041</u>	<u>8,866</u>	<u>29,759</u>	<u>133,721</u>
Profit (loss) for the period	<u>28,663</u>	<u>32,880</u>	<u>4,181</u>	<u>(891)</u>	<u>16,463</u>	<u>81,296</u>
Total assets	<u>2,923,802</u>	<u>4,310,801</u>	<u>60,783</u>	<u>1,830,241</u>	<u>5,268,365</u>	<u>14,393,992</u>

	31 March 2011					
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Center KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>						
Net operating income	<u>44,361</u>	<u>46,053</u>	<u>5,978</u>	<u>9,141</u>	<u>27,060</u>	<u>132,593</u>
Profit for the period	<u>26,592</u>	<u>39,998</u>	<u>3,119</u>	<u>182</u>	<u>11,166</u>	<u>81,057</u>
Total assets	<u>2,787,131</u>	<u>4,374,315</u>	<u>79,755</u>	<u>1,951,590</u>	<u>4,716,715</u>	<u>13,909,506</u>

8 Commitments and contingent liabilities

	31 March 2012 KD 000's	Audited 31 December 2011 KD 000's	31 March 2011 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	<u>102,856</u>	99,555	87,032
Letters of credit	<u>268,908</u>	281,398	360,607
Guarantees	<u>1,736,618</u>	1,685,644	1,708,601
	<u>2,108,382</u>	<u>2,066,597</u>	<u>2,156,240</u>

Irrevocable commitments to extend credit amount to KD 223,171 thousand (31 December 2011: KD 184,196 thousand, 31 March 2011: KD 93,483 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

8 Commitments and contingent liabilities (continued)

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.

9 Interest rate swaps and forward foreign exchange contracts

Interest rate swaps and forward foreign exchange contracts are financial instruments that derive their value by referring to interest rates and foreign exchange rates respectively. 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.

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.

Interest rate swaps used to hedge the change in fair value of the Group's financial assets and liabilities and which qualify as effective hedging instruments are shown as interest rate swaps 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 interest rate swaps and forward foreign exchange contracts are covered by entering into similar transactions with counter parties or by other risk mitigating transactions.

The fair value of interest rate swaps and forward foreign exchange contracts included in the financial records, together with their notional amounts is summarised as follows:

	31 March 2012			Audited 31 December 2011			31 March 2011		
	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)	88	15,129	163,336	73	14,254	156,684	67	9,674	165,336
Interest rate swaps (others)	67	67	55,560	1,678	123	58,506	701	161	58,223
Forward foreign exchange contracts	5,549	2,819	861,505	7,399	2,425	1,039,998	2,877	4,680	828,629
	5,704	18,015	1,080,401	9,150	16,802	1,255,188	3,645	14,515	1,052,188

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2012 is negative KD 15,041 thousand (31 December 2011: negative KD 14,181 thousand, 31 March 2011: negative KD 9,607 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 14,393 thousand (31 December 2011: KD 12,248 thousand 31 March 2011: KD 10,530 thousand).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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10 Related party transactions

Certain related parties (major shareholders, directors and officers of the Bank, companies which they control or over which they exert significant influence, and entities associated with the Group) were customers of the Bank and its subsidiaries in the ordinary course of business. Such transactions 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.

In accordance with Central Bank of Kuwait regulations regarding lending to Board Members and their related parties, such lending is secured by tangible collateral.

Details of the interests, as at the reporting date, of Board Members, Executive Officers and balances with Associates are as follows:

	Number of Board Members or Executive Officers			Number of related parties			31 March 2012	31 December 2011 Audited KD 000's	31 March 2011 KD 000's
	31 March 2012	31 December 2011	31 March 2011	31 March 2012	31 December 2011	31 March 2011			
Board Members and related parties									
Loans (secured)	3	5	4	15	14	14	233,486	235,723	163,088
Contingent liabilities	1	2	2	14	13	21	15,336	14,787	63,908
Credit cards	8	7	6	2	2	3	37	89	38
Deposits	9	9	9	15	15	25	24,030	70,166	123,195
Collateral against credit facilities	4	5	4	17	17	24	413,381	390,751	332,064
Interest and fee income							2,370	7,612	2,164
Interest expense							285	1,012	239
Executive Officers									
Loans	8	8	6	-	-	-	791	792	279
Contingent liabilities	1	1	1	-	-	-	6	6	11
Credit cards	4	5	5	-	-	-	2	30	30
Deposits	15	16	15	-	-	-	995	1,854	1,818
Interest and fee income							5	6	3
Interest expense							1	15	7
Associates									
Placements							110,345	220,721	163,849
Acceptances							59,504	38,834	76,713

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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11 Key management compensation

Compensation for key management, including executive officers, comprises the following:

	Three months ended 31 March	
	2012	2011
	KD 000's	KD 000's
Salaries and other short term benefits	2,769	2,623
Post-employment benefits	190	171
Share based compensation	281	348
	<u>3,240</u>	<u>3,142</u>