

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 MARCH 2017 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2017 (Unaudited)

	Notes	Three months ended 31 March	
		2017 KD 000's	2016 KD 000's
Interest income		168,231	155,722
Interest expense		46,621	42,056
Net interest income		121,610	113,666
Murabaha and other Islamic financing income		35,937	29,907
Finance cost and Distribution to depositors		10,003	6,950
Net income from Islamic financing		25,934	22,957
Net interest income and net income from Islamic financing		147,544	136,623
Net fees and commissions		33,643	33,410
Net investment income		5,133	1,467
Net gains from dealing in foreign currencies		8,030	7,399
Other operating income		1,031	339
Non-interest income		47,837	42,615
Net operating income		195,381	179,238
Staff expenses		36,523	33,905
Other administrative expenses		20,189	19,499
Depreciation of premises and equipment		4,007	4,049
Amortisation of intangible assets		792	1,198
Operating expenses		61,511	58,651
Operating profit before provision for credit losses and impairment losses		133,870	120,587
Provision charge for credit losses and impairment losses	3	37,737	30,917
Operating profit before taxation		96,133	89,670
Taxation	4	6,415	6,966
Profit for the period		89,718	82,704
Attributable to:			
Shareholders of the Bank		85,355	78,935
Non-controlling interests		4,363	3,769
		89,718	82,704
Basic earnings per share attributable to shareholders of the Bank	5	15 fils	14 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 2017 (Unaudited)

	Three months ended 31 March	
	2017 KD 000's	2016 KD 000's
Profit for the period	89,718	82,704
Other comprehensive income:		
Investments available for sale:		
Net change in fair value	17,957	(10,465)
Net transfer to consolidated statement of income	(3,392)	4,247
	14,565	(6,218)
Share of other comprehensive income (loss) of associates	150	(20)
Exchange differences on translation of foreign operations	8,798	(30,593)
Other comprehensive income (loss) for the period reclassifiable to consolidated statement of income in subsequent periods	23,513	(36,831)
Total comprehensive income for the period	113,231	45,873
Attributable to:		
Shareholders of the Bank	108,555	42,038
Non-controlling interests	4,676	3,835
	113,231	45,873

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 2017 (Unaudited)

		Audited	
		31 December	31 March
		2016	2016
	Notes	KD 000's	KD 000's
Assets			
Cash and short term funds		2,686,963	4,310,505
Central Bank of Kuwait bonds		748,889	680,675
Kuwait Government treasury bonds		493,101	390,479
Deposits with banks		2,407,915	1,785,077
Loans, advances and Islamic financing to customers		13,611,491	13,559,416
Investment securities		3,174,632	2,777,057
Investment in associates		73,644	86,011
Land, premises and equipment		255,086	233,414
Goodwill and other intangible assets		581,840	658,148
Other assets		170,508	191,478
Total assets		24,204,069	24,672,260
Liabilities			
Due to banks and other financial institutions		7,347,803	8,266,805
Customer deposits		12,608,092	12,263,530
Certificates of deposit issued		415,989	665,277
Subordinated Tier 2 bonds		124,700	124,675
Other liabilities		302,753	269,932
Total liabilities		20,799,337	21,590,219
Equity			
Share capital	6	563,566	529,170
Proposed bonus shares	6	28,178	-
Statutory reserve		281,783	251,986
Share premium account		803,028	699,840
Treasury shares	6	(77,799)	(77,799)
Treasury shares reserve		13,994	13,994
Other reserves	6	1,271,813	1,229,989
Equity attributable to shareholders of the Bank		2,884,563	2,647,180
Perpetual Tier 1 Capital Securities		210,700	210,700
Non-controlling interests		309,469	224,161
Total equity		3,404,732	3,082,041
Total liabilities and equity		24,204,069	24,672,260

Ghassan Ahmed Saoud Al Khalid
Vice Chairman

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2017 (Unaudited)

	Notes	Three months ended 31 March	
		2017 KD 000's	2016 KD 000's
Operating activities			
Profit for the period		89,718	82,704
Adjustments for:			
Net investment income		(5,133)	(1,467)
Depreciation of premises and equipment		4,007	4,049
Amortisation of intangible assets		792	1,198
Provision charge for credit losses and impairment losses	3	37,737	30,917
Share based payment reserve		93	153
Taxation	4	6,415	6,966
Operating profit before changes in operating assets and liabilities		133,629	124,520
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		9,934	123,255
Kuwait Government treasury bonds		(273,789)	(10,427)
Deposits with banks		86,058	(358,398)
Loans, advances and Islamic financing to customers		(472,272)	(29,846)
Other assets		8,775	(17,988)
Due to banks and other financial institutions		84,677	960,338
Customer deposits		543,176	204,327
Certificates of deposit issued		34,346	10,020
Other liabilities		8,360	(4,858)
Tax paid		(5,362)	(6,479)
Net cash from operating activities		157,532	994,464
Investing activities			
Purchase of investment securities		(404,083)	(473,044)
Proceeds from sale/redemption of investment securities		444,830	469,935
Dividend income		1,028	1,082
Dividend from associates		-	397
Proceeds from sale of land, premises and equipment		291	1,131
Purchase of land, premises and equipment		(9,910)	(12,093)
Net cash from (used in) investing activities		32,156	(12,592)
Financing activities			
Dividends paid	6	(166,184)	(148,443)
Dividend paid by a subsidiary to non-controlling interests		(5,400)	(4,295)
Net cash used in financing activities		(171,584)	(152,738)
Increase in cash and short term funds		18,104	829,134
Cash and short term funds at 1 January		2,686,963	3,481,371
Cash and short term funds at 31 March		2,705,067	4,310,505

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 2017 (Unaudited)

KD 000's

	Equity attributable to shareholders of the Bank										
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 6)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total
At 1 January 2017	563,566	28,178	281,783	803,028	(77,799)	13,994	1,271,813	2,884,563	210,700	309,469	3,404,732
Profit for the period	-	-	-	-	-	-	85,355	85,355	-	4,363	89,718
Other comprehensive income	-	-	-	-	-	-	23,200	23,200	-	313	23,513
Total comprehensive income	-	-	-	-	-	-	108,555	108,555	-	4,676	113,231
Issue of bonus shares (Note 6)	28,178	(28,178)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(166,184)	(166,184)	-	-	(166,184)
Share based payment in a subsidiary	-	-	-	-	-	-	54	54	-	39	93
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(5,400)	(5,400)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(38)	(38)	-	127	89
At 31 March 2017	591,744	-	281,783	803,028	(77,799)	13,994	1,214,200	2,826,950	210,700	308,911	3,346,561
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the period	-	-	-	-	-	-	78,935	78,935	-	3,769	82,704
Other comprehensive (loss) income	-	-	-	-	-	-	(36,897)	(36,897)	-	66	(36,831)
Total comprehensive income	-	-	-	-	-	-	42,038	42,038	-	3,835	45,873
Issue of bonus shares (Note 6)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 6)	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Transfer to cash settled share based compensation	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	89	89	-	64	153
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(25)	(25)	-	72	47
At 31 March 2016	529,170	-	251,986	699,840	(77,799)	13,994	1,229,989	2,647,180	210,700	224,161	3,082,041

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 2017 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) for the three months period ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on 10 April 2017. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank with the Central Bank of Kuwait. The Bank’s registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

The annual consolidated financial statements for the year ended 31 December 2016 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the requirement of IAS 39, ‘Financial Instruments: Recognition and Measurement’, for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not specifically provided for.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2016. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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

3 Provision charge for credit losses and impairment losses

	Three months ended 31 March	
	2017	2016
	KD 000’s	KD 000’s
Provision charge for credit losses – specific	11,954	5,952
Provision charge for credit losses – general	23,171	13,972
Impairment losses	2,612	10,993
	<u>37,737</u>	<u>30,917</u>

4 Taxation

	Three months ended 31 March	
	2017	2016
	KD 000’s	KD 000’s
National labour support tax	2,131	1,978
Zakat	928	855
Contribution to Kuwait Foundation for the Advancement of Sciences	678	662
Overseas tax	2,678	3,471
	<u>6,415</u>	<u>6,966</u>

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2017 (Unaudited)

5 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank (adjusted for interest and profit paid on Perpetual Tier 1 Capital Securities) by the weighted average number of shares outstanding during the period net of treasury shares. There are no dilutive potential shares that are convertible into shares.

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Profit attributable to shareholders of the Bank	<u>85,355</u>	<u>78,935</u>
Weighted average number of shares outstanding during the period net of treasury shares (thousands)	<u>5,816,429</u>	<u>5,600,462</u>
Basic earnings per share	<u>15 fils</u>	<u>14 fils</u>

Earnings per share calculations for the period ended 31 March 2016 have been adjusted to take account of the rights shares issued in 2016 and bonus shares issued in 2017.

6 Shareholders' equity

a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2016: 6,000,000,000 shares and 31 March 2016: 6,000,000,000 shares) of 100 fils each. The issued and fully paid up share capital of the Bank comprises of 5,917,447,518 shares (31 December 2016: 5,635,664,303 shares and 31 March 2016: 5,291,703,571 shares) of 100 fils each.

b) Treasury shares

	31 March 2017	Audited	31 March 2016
		31 December 2016	
Number of treasury shares	101,018,981	96,208,554	96,208,243
Treasury shares as a percentage of total shares in issue	1.7%	1.7%	1.8%
Cost of treasury shares (KD thousand)	77,799	77,799	77,799
Market value of treasury shares (KD thousand)	66,673	62,536	64,460
Weighted average market value per treasury share (fils)	715	643	722

c) Dividend and bonus shares

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

31 March 2017 (Unaudited)

6 Shareholders' equity (continued)

d) Other reserves

							KD 000's
	<i>General reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Cumulative changes in fair values</i>	<i>Share based payment reserve</i>	<i>Proposed cash dividend</i>	<i>Total other reserves</i>
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	1,271,813
Profit for the period	-	85,355	-	-	-	-	85,355
Other comprehensive income	-	-	8,651	14,549	-	-	23,200
Total comprehensive income	-	85,355	8,651	14,549	-	-	108,555
Dividends paid	-	-	-	-	-	(166,184)	(166,184)
Share based payment in a subsidiary	-	-	-	-	54	-	54
Change in effective holding in a subsidiary	-	(38)	-	-	-	-	(38)
At 31 March 2017	117,058	1,248,510	(229,264)	63,670	14,226	-	1,214,200
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	78,935	-	-	-	-	78,935
Other comprehensive loss	-	-	(30,672)	(6,225)	-	-	(36,897)
Total comprehensive income (loss)	-	78,935	(30,672)	(6,225)	-	-	42,038
Dividends paid	-	-	-	-	-	(148,443)	(148,443)
Transfer to cash settled share based compensation	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	89	-	89
Change in effective holding in a subsidiary	-	(25)	-	-	-	-	(25)
At 31 March 2016	117,058	1,186,131	(110,421)	23,247	13,974	-	1,229,989

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2017 (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, 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:

	31 March 2017						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	<u>60,651</u>	<u>47,628</u>	<u>6,846</u>	<u>30,271</u>	<u>5,582</u>	<u>44,403</u>	<u>195,381</u>
Profit (loss) for the period	<u>33,912</u>	<u>38,553</u>	<u>4,084</u>	<u>10,547</u>	<u>(22,864)</u>	<u>25,486</u>	<u>89,718</u>
Total assets	<u>4,252,111</u>	<u>5,578,591</u>	<u>81,828</u>	<u>3,673,149</u>	<u>2,920,815</u>	<u>8,307,756</u>	<u>24,814,250</u>
Total liabilities	<u>4,426,042</u>	<u>2,725,036</u>	<u>17,258</u>	<u>3,251,503</u>	<u>1,716,730</u>	<u>9,331,120</u>	<u>21,467,689</u>

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2017 (Unaudited)

7 Segmental analysis (continued)

	31 March 2016						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	58,424	42,966	5,876	26,033	3,703	42,236	179,238
Profit (loss) for the period	34,727	31,563	3,080	9,110	(19,141)	23,365	82,704
Total assets	4,090,596	5,238,105	62,469	3,260,127	2,161,183	9,859,780	24,672,260
Total liabilities	4,141,664	2,232,321	5,799	2,939,749	1,934,292	10,336,394	21,590,219

8 Commitments and contingent liabilities

	31 March 2017 KD 000's	Audited 31 December 2016 KD 000's	31 March 2016 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	187,978	115,668	100,292
Letters of credit	274,279	319,459	248,216
Guarantees	3,614,618	3,638,537	3,628,328
	4,076,875	4,073,664	3,976,836

Irrevocable commitments to extend credit amount to KD 705,861 thousand (31 December 2016: KD 786,888 thousand, 31 March 2016: KD 1,014,674 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 73,892 thousand (31 December 2016: KD 105,426 thousand, 31 March 2016: KD 88,060 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2017 (Unaudited)

9 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>31 March 2017</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	1,936,400	935,268	14,762	2,886,430
Equities and other investments	82,221	85,370	69,997	237,588
	<u>2,018,621</u>	<u>1,020,638</u>	<u>84,759</u>	<u>3,124,018</u>
Derivative financial instruments (Note 10)	-	(6,763)	-	(6,763)
 <i>31 December 2016</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	1,753,246	939,419	14,765	2,707,430
Equities and other investments	91,489	132,410	71,782	295,681
	<u>1,844,735</u>	<u>1,071,829</u>	<u>86,547</u>	<u>3,003,111</u>
Derivative financial instruments (Note 10)	-	2,633	-	2,633
 <i>31 March 2016</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	1,572,936	854,314	20,321	2,447,571
Equities and other investments	126,074	64,139	78,916	269,129
	<u>1,699,010</u>	<u>918,453</u>	<u>99,237</u>	<u>2,716,700</u>
Derivative financial instruments (Note 10)	-	(50,121)	-	(50,121)

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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9 Fair value of financial instruments (continued)

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

	<i>At 1 January 2017 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2017 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	14,765	-	-	-	(3)	14,762	227
Equities and other investments	71,782	27	144	(1,790)	(166)	69,997	1,153
	86,547	27	144	(1,790)	(169)	84,759	1,380

	<i>At 1 January 2016 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2016 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	31,686	42	17,622	(29,003)	(26)	20,321	277
Equities and other investments	79,904	(315)	496	(910)	(259)	78,916	858
	111,590	(273)	18,118	(29,913)	(285)	99,237	1,135

10 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.

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10 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:

	31 March 2017			Audited 31 December 2016			31 March 2016		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	22,684	28,660	1,421,589	25,992	30,117	1,376,449	2,743	47,901	963,165
Interest rate swaps (others)	1,381	1,339	83,406	1,450	1,404	84,811	1,611	1,550	95,559
Forward foreign exchange contracts	4,555	5,384	1,795,468	17,741	11,029	2,094,223	7,833	12,857	1,739,782
	28,620	35,383	3,300,463	45,183	42,550	3,555,483	12,187	62,308	2,798,506

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2017 is negative KD 5,976 thousand (31 December 2016: negative KD 4,125 thousand, 31 March 2016: negative KD 45,158 thousand). Gain on the hedged fixed income financial assets amounted to KD 41,607 thousand (31 December 2016: KD 26,805 thousand, 31 March 2016: KD 40,056 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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11 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			31 March 2017	31 December 2016 Audited KD 000's	31 March 2016 KD 000's
	31 March 2017	31 December 2016	31 March 2016	31 March 2017	31 December 2016	31 March 2016			
Board Members									
Loans (secured)	3	4	4	15	16	10	154,603	155,598	249,237
Contingent liabilities	-	-	1	13	13	12	19,327	20,981	19,040
Credit cards	5	6	7	10	10	2	69	99	30
Deposits	8	8	8	69	67	65	42,312	32,090	35,915
Collateral against credit facilities	3	4	4	13	14	14	301,907	288,898	321,447
Interest and fee income							1,397	7,586	2,217
Interest expense							10	43	17
Purchase of equipment and other expenses							5	23	1
Executive Officers									
Loans	4	3	4	5	3	2	2,597	2,702	2,057
Contingent liabilities	4	5	5	-	-	-	2	2	2
Credit cards	11	12	12	3	2	2	66	38	49
Deposits	13	13	12	31	33	25	3,864	2,910	3,636
Interest and fee income							23	90	25
Interest expense							-	-	-

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2017 (Unaudited)

11 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 31 March	
	2017	2016
	KD 000's	KD 000's
Salaries and other short term benefits	1,854	1,687
Post-employment benefits	82	75
Share based compensation	142	113
	<u>2,078</u>	<u>1,875</u>