

# Consolidated Financial Statements

Page No.

AUDITORS' REPORT	1
<b>CONSOLIDATED FINANCIAL STATEMENTS</b>	
Consolidated Statement of Income .....	3
Consolidated Statement of Comprehensive Income .....	4
Consolidated Statement of Financial Position .....	5
Consolidated Statement of Cash Flows .....	6
Consolidated Statement of Changes in Equity .....	7
<b>NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS</b>	
1 Incorporation and Registration .....	8
2 Significant Accounting Policies .....	8
3 Segmental Analysis .....	19
4 Interest Income .....	21
5 Interest Expense.....	21
6 Net Fees and Commissions .....	21
7 Net investment income.....	21
8 Taxation .....	21
9 Earnings Per Share .....	22
10 Cash and Short Term Funds .....	22
11 Loans, Advances and Islamic financing to customers.....	22
12 Financial Investments .....	24
13 Investment in Associates .....	25
14 Goodwill and Other Intangible Assets .....	27
15 Other Assets .....	28
16 Other Liabilities .....	28
17 Share Capital and Reserves .....	29
18 Proposed Dividend .....	31
19 Share Based Payment .....	31
20 Fair Value of Financial Instruments .....	32
21 Subsidiaries .....	33
22 Commitments and Contingent Liabilities .....	34
23 Interest Rate Swaps and Forward Foreign Exchange Contracts .....	34
24 Related Party Transactions .....	35
25 Key Management Compensation .....	36
26 Business Combination.....	36
27 Risk Management .....	36
28 Capital .....	45
29 Funds Under Management .....	46
30 Family Support Fund .....	46

National Bank of Kuwait Group  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>KD 000's</b>	<b>2012</b> <b>KD 000's</b>
Interest income	4	<b>489,328</b>	491,464
Interest expense	5	<b>101,614</b>	118,747
<b>Net interest income</b>		<b>387,714</b>	372,717
Murabaha and other Islamic financing income		<b>73,836</b>	29,757
Distribution to depositors and Murabaha costs		<b>10,076</b>	4,650
<b>Net income from Islamic financing</b>		<b>63,760</b>	25,107
<b>Net interest income and net income from Islamic financing</b>		<b>451,474</b>	397,824
Net fees and commissions	6	<b>110,975</b>	103,397
Net investment income	7	<b>18,724</b>	109,817
Net gains from dealing in foreign currencies		<b>26,232</b>	24,038
Share of results of associates		<b>16,287</b>	13,377
Other operating income		<b>2,558</b>	1,477
<b>Non-interest income</b>		<b>174,776</b>	252,106
<b>Net operating income</b>		<b>626,250</b>	649,930
Staff expenses		<b>114,940</b>	102,169
Other administrative expenses		<b>71,780</b>	63,755
Depreciation of premises and equipment		<b>14,539</b>	13,706
Amortisation of intangible assets	14	<b>5,837</b>	4,053
<b>Operating expenses</b>		<b>207,096</b>	183,683
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>419,154</b>	466,247
Provision charge for credit losses	11	<b>143,563</b>	124,283
Impairment losses for investment securities	12	<b>5,183</b>	14,735
<b>Operating profit before taxation</b>		<b>270,408</b>	327,229
Taxation	8	<b>18,886</b>	18,632
<b>Profit for the year</b>		<b>251,522</b>	308,597
Attributable to:			
Shareholders of the Bank		<b>238,137</b>	305,125
Non-controlling interests		<b>13,385</b>	3,472
		<b>251,522</b>	308,597
<b>Basic and diluted earnings per share attributable to shareholders of the Bank</b>	9	<b>53 fils</b>	68 fils

The attached notes 1 to 30 form part of these consolidated financial statements.

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>KD 000's</b>	<b>2012</b> <b>KD 000's</b>
<b>Profit for the year</b>		<b>251,522</b>	308,597
<b>Other comprehensive income reclassifiable to consolidated statement of income in subsequent periods</b>			
Change in fair value of investments available for sale		<b>13,996</b>	16,371
Net gains on investments available for sale transferred to consolidated statement of income	7	<b>(13,747)</b>	(27,336)
Impairment losses on investments available for sale transferred to consolidated statement of income	12	<b>5,183</b>	14,735
Share of other comprehensive income of associates		<b>2,404</b>	966
Exchange differences on translation of foreign operations		<b>(37,897)</b>	(3,270)
<b>Other comprehensive (loss) income for the year included in equity</b>		<b>(30,061)</b>	1,466
<b>Total comprehensive income for the year</b>		<b>221,461</b>	310,063
<b>Attributable to:</b>			
Shareholders of the Bank		<b>212,151</b>	305,839
Non-controlling interests		<b>9,310</b>	4,224
		<b>221,461</b>	310,063

The attached notes 1 to 30 form part of these consolidated financial statements.

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		2013	(Restated) 2012
	Notes	KD 000's	KD 000's
<b>Assets</b>			
Cash and short term funds	10	2,412,059	1,610,765
Central Bank of Kuwait bonds	12	534,459	614,152
Kuwait Government treasury bonds	12	320,248	356,211
Deposits with banks		899,672	1,203,418
Loans, advances and Islamic financing to customers	11	10,695,317	9,860,620
Investment securities	12	2,350,175	1,577,149
Investment in associates	13	259,801	213,175
Land, premises and equipment		192,199	191,485
Goodwill and other intangible assets	14	700,085	722,933
Other assets	15	236,130	142,563
<b>Total assets</b>		<b>18,600,145</b>	<b>16,492,471</b>
<b>Liabilities</b>			
Due to banks and other financial institutions		4,944,865	4,154,983
Customer deposits		10,478,048	9,507,754
Certificates of deposit issued		240,984	-
Other liabilities	16	224,454	213,739
<b>Total liabilities</b>		<b>15,888,351</b>	<b>13,876,476</b>
<b>Equity</b>			
Share capital	17	457,117	435,349
Proposed bonus shares	18	22,856	21,768
Statutory reserve	17	228,559	217,675
Share premium account	17	699,840	699,840
Treasury shares	17	(80,302)	(79,171)
Treasury share reserve	17	16,224	17,957
Other reserves	17	1,164,550	1,113,097
Equity attributable to shareholders of the Bank		2,508,844	2,426,515
Non-controlling interests		202,950	189,480
<b>Total equity</b>		<b>2,711,794</b>	<b>2,615,995</b>
<b>Total liabilities and equity</b>		<b>18,600,145</b>	<b>16,492,471</b>

Nasser Musaed Abdullah Al-Sayer  
Vice Chairman

Ibrahim Shucri Dabdoub  
Group Chief Executive Officer

The attached notes 1 to 30 form part of these consolidated financial statements.

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> <b>KD 000's</b>	<b>2012</b> <b>KD 000's</b>
<b>Operating activities</b>			
Profit for the year		<b>251,522</b>	308,597
Adjustments for:			
Net investment income	7	<b>(18,724)</b>	(109,817)
Share of results of associates		<b>(16,287)</b>	(13,377)
Depreciation of premises and equipment		<b>14,539</b>	13,706
Amortisation of intangible assets	14	<b>5,837</b>	4,053
Provision charge for credit losses	11	<b>143,563</b>	124,283
Impairment losses for investment securities	12	<b>5,183</b>	14,735
Share based payment reserve	19	<b>1,424</b>	1,868
Taxation	8	<b>18,886</b>	18,632
Operating profit before changes in operating assets and liabilities		<b>405,943</b>	362,680
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		<b>79,693</b>	(159,774)
Kuwait Government treasury bonds		<b>35,963</b>	40,093
Deposits with banks		<b>303,746</b>	(229,985)
Loans, advances and Islamic financing to customers		<b>(978,656)</b>	(633,781)
Other assets		<b>(93,567)</b>	11,369
Due to banks and other financial institutions		<b>789,882</b>	(651,161)
Customer deposits		<b>970,294</b>	1,748,905
Certificates of deposit issued		<b>240,984</b>	-
Other liabilities		<b>43,647</b>	(3,852)
Tax paid		<b>(16,591)</b>	(18,824)
Net cash from operating activities		<b>1,781,338</b>	465,670
<b>Investing activities</b>			
Purchase of investment securities		<b>(1,547,486)</b>	(1,696,301)
Proceeds from sale/redemption of investment securities		<b>759,928</b>	1,739,061
Dividend income	7	<b>3,089</b>	3,550
Acquisition of a subsidiary, net of cash acquired		-	49,331
Acquisition of non-controlling interests		-	(733)
Additional investment in associates	13	<b>(21,914)</b>	-
Dividend from associates		<b>10,601</b>	10,474
Proceeds from sale of land, premises and equipment		<b>590</b>	888
Purchase of land, premises and equipment		<b>(15,843)</b>	(23,774)
Net cash (used in) from investing activities		<b>(811,035)</b>	82,496
<b>Financing activities</b>			
Dividends paid		<b>(128,248)</b>	(157,181)
Proceeds from sale of treasury shares		<b>197</b>	6,571
Purchase of treasury shares		<b>(3,061)</b>	(54,773)
Net cash used in financing activities		<b>(131,112)</b>	(205,383)
<b>Increase in cash and short term funds</b>		<b>839,191</b>	342,783
Exchange differences on translation of foreign operations		<b>(37,897)</b>	(3,270)
Cash and short term funds at the beginning of the year		<b>1,610,765</b>	1,271,252
<b>Cash and short term funds at the end of the year</b>	10	<b>2,412,059</b>	1,610,765

The attached notes 1 to 30 form part of these consolidated financial statements.

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	<i>Equity attributable to shareholders of the Bank</i>								<b>KD 000's</b>	
	<i>Share capital</i>	<i>Proposed bonus shares</i>	<i>Statutory reserve</i>	<i>Share premium account</i>	<i>Treasury shares</i>	<i>Treasury share reserve</i>	<i>Other reserves (Note 17)</i>	<i>Total</i>	<i>Non - controlling interests</i>	<i>Total equity</i>
At 1 January 2012	395,772	39,577	197,886	699,840	(33,415)	20,403	1,004,545	2,324,608	11,965	2,336,573
Profit for the year	-	-	-	-	-	-	305,125	305,125	3,472	308,597
Other comprehensive income	-	-	-	-	-	-	714	714	752	1,466
<b>Total comprehensive income</b>	-	-	-	-	-	-	305,839	305,839	4,224	310,063
Transfer to statutory reserve (Note 17)	-	-	19,789	-	-	-	(19,789)	-	-	-
Issue of bonus shares (Note 18)	39,577	(39,577)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(54,773)	-	-	(54,773)	-	(54,773)
Sale of treasury shares	-	-	-	-	9,017	(2,446)	-	6,571	-	6,571
Dividends paid	-	-	-	-	-	-	(157,181)	(157,181)	-	(157,181)
Proposed bonus shares (Note 18)	-	21,768	-	-	-	-	(21,768)	-	-	-
Share based payment (Note 19)	-	-	-	-	-	-	1,844	1,844	24	1,868
Acquisition of non-controlling interests	-	-	-	-	-	-	(393)	(393)	(340)	(733)
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(101)	(101)
Acquisition of a subsidiary (As restated - Note 26)	-	-	-	-	-	-	-	-	173,708	173,708
<b>At 31 December 2012 (restated)</b>	<b>435,349</b>	<b>21,768</b>	<b>217,675</b>	<b>699,840</b>	<b>(79,171)</b>	<b>17,957</b>	<b>1,113,097</b>	<b>2,426,515</b>	<b>189,480</b>	<b>2,615,995</b>
Profit for the year	-	-	-	-	-	-	238,137	<b>238,137</b>	13,385	<b>251,522</b>
Other comprehensive loss	-	-	-	-	-	-	(25,986)	<b>(25,986)</b>	(4,075)	<b>(30,061)</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>212,151</b>	<b>212,151</b>	<b>9,310</b>	<b>221,461</b>
Transfer to statutory reserve (Note 17)	-	-	10,884	-	-	-	(10,884)	-	-	-
Issue of bonus shares (Note 18)	21,768	(21,768)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(3,061)	-	-	<b>(3,061)</b>	-	<b>(3,061)</b>
Sale of treasury shares	-	-	-	-	1,930	(1,733)	-	<b>197</b>	-	<b>197</b>
Dividends paid	-	-	-	-	-	-	(128,248)	<b>(128,248)</b>	-	<b>(128,248)</b>
Proposed bonus shares (Note 18)	-	22,856	-	-	-	-	(22,856)	-	-	-
Share based payment (Note 19)	-	-	-	-	-	-	1,290	<b>1,290</b>	134	<b>1,424</b>
Capital increase in a subsidiary	-	-	-	-	-	-	-	-	469	<b>469</b>
Dividend paid by subsidiary	-	-	-	-	-	-	-	-	(160)	<b>(160)</b>
Non-controlling interest in newly consolidated subsidiary	-	-	-	-	-	-	-	-	3,717	<b>3,717</b>
<b>At 31 December 2013</b>	<b>457,117</b>	<b>22,856</b>	<b>228,559</b>	<b>699,840</b>	<b>(80,302)</b>	<b>16,224</b>	<b>1,164,550</b>	<b>2,508,844</b>	<b>202,950</b>	<b>2,711,794</b>

The attached notes 1 to 30 form part of these consolidated financial statements.

31 December 2013

### 1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 14 January 2014. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in 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. The principal activities of the Bank are described in Note 3.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements have been 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) as issued by International Accounting Standards Board (IASB) except for the International Accounting Standard (IAS) 39, ‘Financial Instruments: Recognition and Measurement’, requirement for a collective provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives, investment securities other than held to maturity investments and investment properties. In addition and as more fully described below, assets and liabilities that are hedged in fair value hedging relationships are carried at fair value to the extent of the risk being hedged.

#### 2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year except that the Group has adopted the following new standards effective for the annual periods beginning on or after 1 January 2013. The adoption of these standards did not have any effect on the financial performance or financial position of the Group. They did however give rise to additional disclosures.

##### *IFRS 10 – Consolidated Financial Statements*

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control. Under IFRS 10, control is based on whether an investor has 1) power over the investee 2) exposure or rights to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

##### *IFRS 12 – Disclosure of Involvement with Other Entities*

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders’ involvement in the activities of the consolidated entities.

##### *IFRS 13 – Fair Value measurement*

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the Group.

##### *IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified (‘recycled’) to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and have no impact on the Group’s financial position or performance.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Changes in accounting policies (continued)**

**Standards issued but not yet effective:**

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2014 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

*IFRS 9: Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the IASB's work on replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39.

**2.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank as at 31 December each year and its subsidiaries as at the same date or a date not earlier than three months from 31 December. The financial statements of subsidiaries and associates are prepared using consistent accounting policies and are adjusted, where necessary, to bring the accounting policies in line with those of the Group. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

*a. Subsidiaries*

Subsidiaries are all entities over which the Bank has control. The control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Refer note 21 for the list of major subsidiaries, their principal businesses and the Group's effective holding.

*b. Non-controlling interest*

Interest in the equity of subsidiaries not attributable to the Group is reported as non-controlling interest in the consolidated statement of financial position. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Losses are allocated to the non-controlling interest even if they exceed the non-controlling interest's share of equity in the subsidiary. Transactions with non-controlling interests are treated as transactions with equity owners of the Group. Gains or losses on disposals of non-controlling interests without loss of control are recorded in equity.

*c. Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income. Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Gain or loss on this transaction is computed by comparing the carrying amount of the associate at the time of loss of significant influence with the aggregate of fair value of the retained investment and proceeds from disposal. This is recognised in the consolidated statement of income.



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Foreign currencies**

The consolidated financial statements are presented in Kuwaiti Dinars (thousands) which is also the Bank's functional currency.

*a. Translation of foreign currency transactions*

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and monetary liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into functional currency at rates of exchange prevailing at the reporting date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of, the cumulative amount in foreign currency translation reserve relating to that foreign operation is recognised in the consolidated statement of income. Goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities are recorded at the functional currency of the foreign operation and are translated to the presentation currency at the rate of exchange prevailing at the reporting date. All resulting exchange differences are recognised in equity (foreign currency translation reserve).

*a. Translation of foreign currency transactions*

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on investment securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

*b. Translation of financial statements of foreign entities*

The results and financial position of all the Group entities that have a functional currency different from the presentation currency is translated to presentation currency as follows:

The assets and liabilities are translated at rates of exchange ruling at the reporting date. Income and expense items are translated at average exchange rates for the year. All resulting exchange differences (including those on transactions which hedge such investments) are recognised in equity (foreign currency translation reserve) and duly recognised in the consolidated statement of income on disposal of the foreign operation.

**2.5 Interest income and expenses**

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the consolidated statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**2.6 Murabaha and other Islamic financing income**

Income from Murabaha, Wakala and Leased assets is recognized on a pattern reflecting a constant periodic return on the outstanding net investment.

**2.7 Fees and commission income**

Fee income earned from services provided over a period of time is recognised over the period of service. Fees arising from providing a transaction service are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Asset management fees related to investment funds are recognised over the period in which the service is provided. The same principle is applied for wealth management and custody services that are continuously provided over an extended period of time.

**2.8 Dividend income**

Dividend income is recognised when the right to receive payment is established.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.9 Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the consolidated statement of income.

*a. Assets carried at amortised cost*

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income. In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

*b. Assets classified as available for sale*

The amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income. This amount is recognised in the consolidated statement of income. If, in a subsequent period, the amount of the impairment loss decreases for an equity instrument, the previously recognised losses are not reversed through the consolidated statement of income, instead, recorded as increase in the cumulative changes in fair value reserve. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

**2.10 Impairment of non-financial assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If previously recognised impairment losses have decreased, such excess impairment provision is reversed for non-financial assets other than goodwill.

**2.11 Share based compensation**

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each reporting date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of income, with a corresponding adjustment to equity.

**2.12 Post employment benefits**

The Group is liable to make defined contributions to State plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place they are employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the reporting date. This basis is considered to be a reliable approximation of the present value of the final obligation.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.13 Taxation**

Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise these. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation enacted at the reporting date.

**2.14 Recognition of financial assets and financial liabilities**

Financial assets and financial liabilities are recognised when the Group becomes party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

**2.15 Cash and short term funds**

Cash and short term funds consist of cash in hand, current account and money at call with other banks and deposits with banks maturing within seven days.

**2.16 Deposits with banks**

Deposits with banks are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

**2.17 Loans and advances to customers**

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market.

*Carrying value*

Loans and advances are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

*Renegotiated loans*

In the event of a default, the Group seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual or collective impairment assessment.

**2.18 Islamic financing to customers**

Islamic financing to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

*a. Murabaha*

Murabaha is an agreement relating to the sale of commodities at cost plus an agreed upon profit margin, whereby the seller informs the buyer of the price at which the deal will be completed and also the amount of profit to be recognized. Murabaha is a financial asset originated by the Group stated at amortized cost net of provision for impairment.

*b. Wakala*

Wakala is an agreement involving Al-Muwakkil (the Principal) who wishes to appoint Al-Wakil (the Agent) to be his agent with respect to the investment of Al-Muwakkil's fund, in accordance with regulations of the Islamic Sharia'a. Wakala is a financial asset originated by the Group and stated at amortized cost net of provision for impairment.

*c. Leased assets - the Group as a lessor*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Leased assets are stated at amounts equal to the net investment outstanding in the leases less provision for impairment.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.19 Financial Investments**

The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on non-trading investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

*Held to maturity*

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value, if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income. The interest income from debt securities classified as held to maturity is recorded in interest income.

*Available for sale*

Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the consolidated statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current consolidated statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income. The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the consolidated statement of income. The interest income from debt securities classified as available for sale is recorded in interest income and the dividend income from equities are recorded in dividend income.

*Investments carried at fair value through statement of income*

Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or, upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as "investments carried at fair value through statement of income" are remeasured at fair value with all changes in fair value being recorded in the consolidated statement of income. Any dividend income of equities classified as 'investments carried at fair value through the statement of income' is recorded as part of 'dividend income'.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.20 Fair value measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value of investments in mutual funds, unit trusts, or similar investment vehicles are based on the last published bid price.

For financial instruments where there is no active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Inputs and assumptions used in valuation techniques mainly include weighted average cost of capital, terminal growth rate, revenue, profit estimates and market multiples such as price to book and price to earnings.

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

### 2.21 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the consolidated statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price treated as interest income using the effective yield method.

### 2.22 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.23 Derecognition of financial assets and financial liabilities

#### Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.24 Derivative financial instruments

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Group are recorded in the consolidated statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised financial asset or liability or a highly probable forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the consolidated statement of income. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the consolidated statement of income.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and any ineffective portion is recognised in the consolidated statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the consolidated statement of income in the period in which the hedged transaction impacts the consolidated statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability. For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the consolidated statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecast transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

### 2.25 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

### 2.26 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in consolidated statement of income. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income. When the use of a property changes such that it is reclassified as Land, premises and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.27 Land, premises and equipment**

Land and premises comprise mainly branches and offices. All premises and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the period in which they are incurred.

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

Building on leasehold land	term of lease (maximum 20 years)
Building on freehold land	50 years
IT systems and equipment	3-10 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The carrying values of land, premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

**2.28 Business combinations**

Business combinations are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Non-controlling interest in the acquiree is measured at the proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other acquisition related costs incurred are expensed and included in other administrative expenses.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included in cost of acquisition. Any resulting gain or loss is recognised in consolidated statement of income. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

**2.29 Goodwill and intangible assets**

*a. Goodwill*

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the net fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is recorded in the functional currency of the foreign operation and is translated to the presentation currency at the rate of exchange prevailing at the reporting date. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the consolidated statement of income.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.29 Goodwill and intangible assets (continued)**

*b. Intangible assets*

Intangible assets comprise separately identifiable intangible items arising from business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefit will flow to the Group. Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight line basis over the useful economic life of 5 to 15 years and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over the recoverable amount is recognised in the consolidated statement of income. Impairment losses on intangible assets recognised in the consolidated statement of income in previous periods, are reversed when there is an increase in the recoverable amount.

**2.30 Property acquired on settlement of debt**

Property acquired on settlement of debt is stated at the lower of the related loans and advances and the current fair value of such assets. Gains or losses on disposal and revaluation losses are recognised in the consolidated statement of income.

**2.31 Due to Banks and Financial Institutions, Customer deposits & Certificates of deposit issued**

Due to Banks and Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

**2.32 Islamic customer deposits**

Islamic customer deposits comprise of Murabaha payable, Investment accounts and Non-investment accounts.

*Murabaha payable*

Murabaha payable is an Islamic transaction involving the Group's purchase of an asset from a counterparty and settlement thereof at cost plus an agreed profit on a deferred payment basis. The purchase price is payable to the counterparty on maturity. Murabaha payable is stated at amortized cost.

*Investment accounts*

Investment accounts may take the form of investment deposits, which are valid for specified periods of time, and are automatically renewable on maturity for the same period, unless the concerned depositors give written notice to the contrary, or take the form of investment saving accounts for unspecified periods. In all cases, investment accounts receive a proportion of the profit, bear a share of loss and are carried at cost plus profit payable.

*Non-investment accounts*

Non-investment accounts represent, in accordance with Islamic Sharia'a, Qard Hasan from depositors to the Bank. These accounts are neither entitled to profit nor do they bear any risk of loss, as the Bank guarantees to pay the related balance. Investing Qard Hasan is made at the discretion of the Group and the results of such investments are attributable to the shareholders of the Bank. Non-investment accounts are carried at cost.

**2.33 Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the consolidated statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the consolidated statement of income.



**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.34 Treasury shares**

The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to reserves.

Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury share reserve amount. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

**2.35 Fiduciary assets**

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in the consolidated statement of financial position.

**2.36 Significant accounting judgements and estimates**

In the process of applying the Group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

**Accounting Judgements**

*Impairment of available for sale equity investments*

The Group treats equity financial assets available for sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

*Classification of investments*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

*Estimation uncertainty and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

*Provision for credit losses*

The Group reviews its Loans, advances and Islamic financing to customers on a quarterly basis to assess whether a provision for credit losses should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Fair values of assets and liabilities including intangibles*

Considerable judgment by management is required in the estimation of the fair value of the assets including intangibles with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.36 Significant accounting judgements and estimates (continued)**

*Share-based payments*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 19.

*Valuation of unquoted financial assets*

Fair value of unquoted financial assets is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of the cash flows and discount factors requires significant estimation.

**3 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 the State of Kuwait.

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 3 SEGMENTAL ANALYSIS (continued)

#### 2013

	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
Net interest income	152,541	122,626	203	-	23,632	88,712	387,714
Net income from Islamic financing	-	-	-	63,760	-	-	63,760
Share of results of associates	-	-	-	725	-	15,562	16,287
Net operating income	200,891	164,803	24,306	68,821	26,953	140,476	626,250
Depreciation and amortisation expenses	4,753	512	101	1,699	10,303	3,008	20,376
<b>Profit (loss) for the year</b>	<b>113,248</b>	<b>62,224</b>	<b>13,323</b>	<b>13,586</b>	<b>(20,604)</b>	<b>69,745</b>	<b>251,522</b>
<b>Total Assets</b>	<b>3,364,320</b>	<b>4,187,234</b>	<b>62,505</b>	<b>2,162,630</b>	<b>2,265,534</b>	<b>6,557,922</b>	<b>18,600,145</b>
<b>Total Liabilities</b>	<b>3,547,023</b>	<b>1,947,352</b>	<b>7,881</b>	<b>1,852,071</b>	<b>2,297,936</b>	<b>6,236,088</b>	<b>15,888,351</b>

#### 2012

	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
Net interest income	148,694	128,113	354	-	25,385	70,171	372,717
Net income from Islamic financing	-	-	-	25,107	-	-	25,107
Share of results of associates	-	-	-	716	-	12,661	13,377
Net operating income	195,150	165,398	25,580	24,862	112,910	126,030	649,930
Depreciation and amortisation expenses	4,732	509	143	931	8,373	3,071	17,759
<b>Profit for the year</b>	<b>114,524</b>	<b>90,080</b>	<b>13,650</b>	<b>6,022</b>	<b>20,639</b>	<b>63,682</b>	<b>308,597</b>
<b>Total Assets (Restated)</b>	<b>3,148,826</b>	<b>4,136,216</b>	<b>60,644</b>	<b>1,795,878</b>	<b>2,257,855</b>	<b>5,093,052</b>	<b>16,492,471</b>
<b>Total Liabilities</b>	<b>3,182,758</b>	<b>1,640,999</b>	<b>5,971</b>	<b>1,621,549</b>	<b>2,712,366</b>	<b>4,712,833</b>	<b>13,876,476</b>

#### Geographic information:

The following table shows the geographic distribution of the Group's operating income based on the location of the operating entities.

#### Net operating income

	2013 KD 000's	2012 KD 000's
Kuwait	485,774	523,901
Other Middle East and North Africa	103,622	95,149
Europe	20,392	18,203
Others	16,462	12,677
	<b>626,250</b>	<b>649,930</b>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 4 INTEREST INCOME

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Deposits with banks	14,142	11,226
Loans and advances to customers	387,894	397,859
Debt investment securities	78,220	71,291
Other	9,072	11,088
	<u>489,328</u>	<u>491,464</u>

### 5 INTEREST EXPENSE

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Due to banks and other financial institutions	25,688	37,217
Customer deposits	75,614	81,530
Certificates of deposit issued	312	-
	<u>101,614</u>	<u>118,747</u>

### 6 NET FEES AND COMMISSIONS

Gross fees and commission income amounted to KD 127,933 thousand (2012: KD 117,334 thousand) and related fees and commission expenses amounted to KD 16,958 thousand (2012: KD 13,937 thousand). Gross fees and commission income includes KD 25,478 thousand relating to trust and fiduciary activities (2012: KD 26,523 thousand).

### 7 NET INVESTMENT INCOME

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Net realised gains on available for sale investments	13,747	27,336
Net (losses) gains from investments carried at fair value through statement of income	(138)	3,058
Dividend income	3,089	3,550
Gain on fair valuation of previously held equity interest	-	81,514
Net gains (losses) from investment properties	2,026	(5,641)
	<u>18,724</u>	<u>109,817</u>

### 8 TAXATION

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Contribution to Kuwait Foundation for the Advancement of Sciences	2,111	1,836
National labour support tax	4,187	3,809
Zakat	1,654	1,499
Taxation on overseas branches and subsidiaries	10,934	11,488
	<u>18,886</u>	<u>18,632</u>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year 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 issuance of employee share options does not result in any change from the reported basic earnings per share.

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Profit for the year attributable to shareholders of the Bank	<u>238,137</u>	<u>305,125</u>
Weighted average number of shares outstanding during the year (thousands)	<u>4,486,995</u>	<u>4,519,291</u>
Basic and diluted earnings per share	<u>53 fils</u>	<u>68 fils</u>

Earnings per share calculations for 2012 have been adjusted to take account of the bonus shares issued in 2013.

### 10 CASH AND SHORT TERM FUNDS

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Cash on hand and on current account with other banks	1,343,229	815,755
Money at call	191,879	176,486
Balances with the Central Bank of Kuwait	170,794	20,084
Deposits and Murabaha with banks maturing within seven days	<u>706,157</u>	<u>598,440</u>
	<u>2,412,059</u>	<u>1,610,765</u>

### 11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS

<i>2013</i>	<i>Middle East and North Africa</i> <i>KD 000's</i>	<i>North America</i> <i>KD 000's</i>	<i>Europe</i> <i>KD 000's</i>	<i>Asia</i> <i>KD 000's</i>	<i>Others</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
Corporate	6,926,475	155,013	285,905	134,109	184,052	7,685,554
Retail	<u>3,442,310</u>	<u>86</u>	<u>2,820</u>	<u>-</u>	<u>-</u>	<u>3,445,216</u>
Loans, advances and Islamic financing to customers	10,368,785	155,099	288,725	134,109	184,052	11,130,770
Provision for credit losses						(435,453)
						<u>10,695,317</u>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

	<i>Middle East and North Africa</i> KD 000's	<i>North America</i> KD 000's	<i>Europe</i> KD 000's	<i>Asia</i> KD 000's	<i>Others</i> KD 000's	<i>Total</i> KD 000's
2012						
Corporate	6,695,409	113,178	291,920	81,228	131,511	7,313,246
Retail	2,991,845	197	694	-	-	2,992,736
Loans, advances and Islamic financing to customers	9,687,254	113,375	292,614	81,228	131,511	10,305,982
Provision for credit losses (Restated – Note 26)						(445,362)
						<u>9,860,620</u>

Provisions for credit losses on cash facilities are as follows:

	<i>Specific</i>		<i>General</i>		<i>Total</i>	
	<i>2013</i> KD 000's	<i>2012</i> KD 000's	<i>2013</i> KD 000's	<i>2012</i> KD 000's	<i>2013</i> KD 000's	<i>2012</i> KD 000's
Balance at beginning of the year	<b>190,634</b>	143,242	<b>254,728</b>	176,582	<b>445,362</b>	319,824
Amounts written off net of exchange movement	<b>(152,347)</b>	(56,423)	<b>(1,291)</b>	(8)	<b>(153,638)</b>	(56,431)
Provisions at acquired subsidiary (Restated - Note 26)	-	31,725	-	27,147	-	58,872
Transfer	<b>39,546</b>	-	<b>(39,546)</b>	-	-	-
Provided during the year	<b>67,538</b>	72,090	<b>76,191</b>	51,007	<b>143,729</b>	123,097
Balance at end of the year	<b>145,371</b>	190,634	<b>290,082</b>	254,728	<b>435,453</b>	445,362

Further analysis of specific provision based on class of financial asset is given below:

	<i>Corporate</i>		<i>Retail</i>		<i>Total</i>	
	<i>2013</i> KD 000's	<i>2012</i> KD 000's	<i>2013</i> KD 000's	<i>2012</i> KD 000's	<i>2013</i> KD 000's	<i>2012</i> KD 000's
Balance at beginning of the year	<b>140,435</b>	93,161	<b>50,199</b>	50,081	<b>190,634</b>	143,242
Amounts written off net of exchange movements	<b>(149,970)</b>	(47,895)	<b>(2,377)</b>	(8,528)	<b>(152,347)</b>	(56,423)
Provisions at acquired subsidiary (Restated - Note 26)	-	28,921	-	2,804	-	31,725
Transfer	<b>39,546</b>	-	-	-	<b>39,546</b>	-
Provided during the year	<b>52,835</b>	66,248	<b>14,703</b>	5,842	<b>67,538</b>	72,090
Balance at end of the year	<b>82,846</b>	140,435	<b>62,525</b>	50,199	<b>145,371</b>	190,634

Provisions at acquired subsidiary are stated for reconciliation purposes.

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 11 LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS (continued)

Analysis of total provision charge for credit losses is given below:

	<i>Specific</i>		<i>General</i>		<i>Total</i>	
	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Cash facilities	<b>67,538</b>	72,090	<b>76,191</b>	51,007	<b>143,729</b>	123,097
Non cash facilities	<b>(854)</b>	777	<b>688</b>	409	<b>(166)</b>	1,186
Provision charge for credit losses	<b>66,684</b>	72,867	<b>76,879</b>	51,416	<b>143,563</b>	124,283

The available provision on non-cash facilities of KD 25,682 thousand (2012: KD 26,077 thousand) is included under other liabilities (Note 16).

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the Central Bank of Kuwait and IFRS. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. Pending further directive from the Central Bank of Kuwait, the general provision in excess of 1% for cash facilities and 0.5% for non-cash facilities was retained as general provision.

Non-performing loans, advances and Islamic financing to customers and related specific provisions are as follows:

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Loans, advances and Islamic financing to customers	<b>217,894</b>	283,506
Provisions	<b>135,061</b>	151,047

The fair value of collateral that the Group holds relating to loans, advances and Islamic financing to customers individually determined to be non-performing at 31 December 2013 amounts to KD 87,091 thousand (2012: KD 141,560 thousand). The collateral consists of cash, securities, bank guarantees and properties.

### 12 FINANCIAL INVESTMENTS

The table below provides the details of the categorisation of financial investments:

<b>2013</b>	<i>Held to maturity</i> <i>KD 000's</i>	<i>Available for sale</i> <i>KD 000's</i>	<i>Fair value through statement of income</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<b>Investment securities</b>				
Debt securities - Government (Non Kuwait)	<b>72,506</b>	<b>1,031,773</b>	-	<b>1,104,279</b>
Debt securities - Non Government	<b>4,139</b>	<b>920,345</b>	-	<b>924,484</b>
Equities	-	<b>116,945</b>	<b>3,933</b>	<b>120,878</b>
Other investments	-	<b>146,349</b>	<b>54,185</b>	<b>200,534</b>
	<b>76,645</b>	<b>2,215,412</b>	<b>58,118</b>	<b>2,350,175</b>
<b>Central Bank of Kuwait bonds</b>	<b>534,459</b>	-	-	<b>534,459</b>
<b>Kuwait Government treasury bonds</b>	<b>320,248</b>	-	-	<b>320,248</b>
	<b>931,352</b>	<b>2,215,412</b>	<b>58,118</b>	<b>3,204,882</b>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 12 FINANCIAL INVESTMENTS (continued)

2012	<i>Held to maturity KD 000's</i>	<i>Available for sale KD 000's</i>	<i>Fair value through statement of income KD 000's</i>	<i>Total KD 000's</i>
Investment securities				
Debt securities - Government (Non Kuwait)	19,237	746,817	-	766,054
Debt securities - Non Government	6,433	430,831	-	437,264
Equities (Restated – Note 26)	-	101,222	33,961	135,183
Other investments (Restated – Note 26)	-	157,795	80,853	238,648
	<u>25,670</u>	<u>1,436,665</u>	<u>114,814</u>	<u>1,577,149</u>
Central Bank of Kuwait bonds	614,152	-	-	614,152
Kuwait Government treasury bonds	356,211	-	-	356,211
	<u>996,033</u>	<u>1,436,665</u>	<u>114,814</u>	<u>2,547,512</u>

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 3,204 thousand (2012: KD 4,908 thousand), which are recorded at cost since fair value cannot be reliably estimated.

An impairment loss of KD 5,183 thousand (2012: KD 14,735 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

### 13 INVESTMENT IN ASSOCIATES

Associates of the Group:

	<i>Carrying value</i>	
	<i>2013 KD 000's</i>	<i>2012 KD 000's</i>
International Bank of Qatar Q.S.C.	137,445	132,016
Bank Syariah Muamalat Indonesia T.B.K.	49,750	40,946
Bank of London and the Middle East	37,785	-
Turkish Bank A.S.	26,114	31,022
United Capital Bank	4,482	5,294
Others	4,225	3,897
	<u>259,801</u>	<u>213,175</u>

	<i>Country of incorporation</i>	<i>Principal business</i>	<i>% Effective ownership</i>	
			<i>2013</i>	<i>2012</i>
International Bank of Qatar Q.S.C.	Qatar	Banking	30.0	30.0
Bank Syariah Muamalat Indonesia T.B.K.	Indonesia	Banking	30.5	25.0
Bank of London and the Middle East	United Kingdom	Banking	25.6	-
Turkish Bank A.S.	Turkey	Banking	36.4	38.1
United Capital Bank	Sudan	Banking	21.7	21.7



# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 13 INVESTMENT IN ASSOCIATES (continued)

During the year, the Group participated in the rights issue of Bank Syariah Muamalat Indonesia T.B.K. The Group also acquired additional equity interest by subscribing to the rights of certain non-participating shareholders which resulted in increase in holding of the Group from 25.03% to 30.45%.

During the year, the Group has also acquired an additional equity interest of 5.8% in Bank of London and the Middle East (previously classified as financial asset at fair value through income statement), increasing the effective holding from 19.8% to 25.6%. The Group reclassified the investment to associate from the date of acquiring additional equity interest.

Summarised financial information of material associates of the Group is as follows:

	<i>International Bank of Qatar Q.S.C. KD 000's</i>	<i>Bank Syariah Muamalat Indonesia T.B.K. KD 000's</i>
<b>2013</b>		
Assets	2,222,759	1,210,065
Liabilities	1,877,921	1,140,281
Net assets	344,838	69,784
Contingent liabilities	754,990	28,645
Net operating income	70,478	62,369
Results for the year	42,885	13,667
Other comprehensive income for the year	8,064	262
	<i>International Bank of Qatar Q.S.C. KD 000's</i>	<i>Bank Syariah Muamalat Indonesia T.B.K. KD 000's</i>
<b>2012</b>		
Assets	2,487,963	1,126,901
Liabilities	2,160,901	1,056,798
Net assets	327,062	70,103
Contingent liabilities	803,353	36,053
Net operating income	68,862	56,256
Results for the year	40,547	11,600
Other comprehensive loss for the year	(11)	(1,742)
<b>Other associates</b>	<b>2013 KD 000's</b>	<b>2012 KD 000's</b>
Share of results for the year	27	121
Share of other comprehensive (loss) income for the year	(15)	184

During the year, the Group has received dividend amounting to KD 10,315 thousand from International Bank of Qatar Q.S.C. (2012: KD 10,184 thousand) and KD 286 thousand from other associates (2012: KD 290 thousand).

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 14 GOODWILL AND OTHER INTANGIBLE ASSETS

	<i>Goodwill</i> <i>KD 000's</i>	<i>Intangible</i> <i>Assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<b>Cost</b>			
At 1 January 2013	494,977	247,581	742,558
Exchange adjustments	(14,548)	(4,341)	(18,889)
At 31 December 2013	<u>480,429</u>	<u>243,240</u>	<u>723,669</u>
<b>Accumulated amortisation</b>			
At 1 January 2013	-	19,625	19,625
Charge for the year	-	5,837	5,837
Exchange adjustments	-	(1,878)	(1,878)
At 31 December 2013	<u>-</u>	<u>23,584</u>	<u>23,584</u>
<b>Net book value</b>			
At 31 December 2013	<u>480,429</u>	<u>219,656</u>	<u>700,085</u>

	<i>Goodwill</i> <i>KD 000's</i>	<i>Intangible</i> <i>assets</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<b>Cost</b>			
At 1 January 2012	165,873	65,877	231,750
Acquisition of a subsidiary (Restated – Note 26)	334,531	183,330	517,861
Exchange adjustments	(5,427)	(1,626)	(7,053)
At 31 December 2012	<u>494,977</u>	<u>247,581</u>	<u>742,558</u>
<b>Accumulated amortisation</b>			
At 1 January 2012	-	16,247	16,247
Charge for the year	-	4,053	4,053
Exchange adjustments	-	(675)	(675)
At 31 December 2012	<u>-</u>	<u>19,625</u>	<u>19,625</u>
<b>Net book value</b>			
At 31 December 2012	<u>494,977</u>	<u>227,956</u>	<u>722,933</u>

Net book value of goodwill as at 31 December 2013 includes KD 334,531 thousand (2012: KD 334,531 thousand) in respect of Boubyan Bank K.S.C.P., KD 143,122 thousand (2012: KD 157,678 thousand) in respect of Al Watany Bank of Egypt S.A.E. (AWB) and KD 2,776 thousand (2012: KD 2,768 thousand) in respect of Credit Bank of Iraq S.A.

Net book value of intangible assets as at 31 December 2013 includes banking licenses and brand amounting to KD 176,844 thousand (2012: KD 182,060 thousand), customer relationships and core deposits amounting to KD 24,853 thousand (2012: KD 27,895 thousand) and brokerage licenses amounting to KD 17,959 thousand (2012: KD 18,001 thousand). Intangible assets with indefinite useful life amounts to KD 176,582 (2012: KD 176,624 thousand). Intangible assets with definite useful life amounting to KD 43,074 (2012: KD 51,332 thousand) are amortised over a period of 5 to 15 years.

31 December 2013

**14 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)****Impairment testing for goodwill and intangible assets with indefinite useful life**

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations unless fair value based on an active market price is higher than the carrying value of the CGU. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows were then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

Since the fair value of the Group's holding in Boubyan Bank K.S.C.P. is higher than its carrying value, there is no indication that the associated goodwill or intangible assets with indefinite useful life is impaired. Recoverable amount of other goodwill and other intangible assets with indefinite useful life is calculated using value-in-use method based on following inputs. A discount rate of 9% (2012: 9%) is used to estimate the recoverable amount of a Brokerage license in Kuwait. The goodwill in respect of AWB is allocated to a single CGU which consists of identifiable net assets including intangible assets of AWB. A discount rate of 15.5% (2012: 14.2%) is used to estimate the recoverable amount of this cash generating unit. A terminal growth rate of 5% (2012: 5%) is applied in all cases. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable margin. Based on such analysis, there are no indications that goodwill or intangible assets are impaired.

**15 OTHER ASSETS**

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Interest receivable	<b>36,971</b>	36,589
Sundry debtors and prepayments	<b>71,283</b>	39,412
Investment properties (Restated – Note 26)	<b>30,246</b>	14,460
Property acquired on settlement of debts	<b>51,155</b>	21,898
Others	<b>46,475</b>	30,204
	<b>236,130</b>	142,563

**16 OTHER LIABILITIES**

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Interest payable	<b>28,412</b>	29,214
Income received in advance	<b>18,610</b>	17,223
Taxation	<b>16,674</b>	14,379
Provision on non-cash facilities (Note 11)	<b>25,682</b>	26,077
Accrued expenses	<b>31,423</b>	26,344
Staff payables	<b>27,251</b>	23,628
Others	<b>76,402</b>	76,874
	<b>224,454</b>	213,739

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 17 SHARE CAPITAL AND RESERVES

#### a) Share capital

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Authorised, issued and fully paid:		
4,571,172,506 (2012 : 4,353,497,625) shares of KD 0.100 each	<b>457,117</b>	435,349

The movement in ordinary shares in issue during the year was as follows:

	<i>2013</i>	<i>2012</i>
Number of shares in issue as at 1 January	<b>4,353,497,625</b>	3,957,725,114
Bonus issue	<b>217,674,881</b>	395,772,511
Number of shares in issue as at 31 December	<b>4,571,172,506</b>	4,353,497,625

#### b) Statutory reserve

The Board of Directors recommended a transfer of KD 10,884 thousand (2012: KD 19,789 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Companies Law, as amended, which require a minimum of 10% of profit for the year attributable to the shareholders of the Bank before KFAS, NLST and Zakat to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

Distribution of this reserve is limited to the amount required to enable payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

#### c) Share premium account

The balance in the share premium account is not available for distribution.

#### d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	<i>2013</i>	<i>2012</i>
Number of treasury shares	<b>85,782,085</b>	80,527,958
Treasury shares as a percentage of total shares in issue	<b>1.9%</b>	1.8%
Cost of treasury shares (KD thousand)	<b>80,302</b>	79,171
Market value of treasury shares (KD thousand)	<b>76,346</b>	77,307

Movement in treasury shares was as follows:

	<i>No. of shares</i>	
	<i>2013</i>	<i>2012</i>
Balance as at 1 January	<b>80,527,958</b>	30,423,135
Purchases	<b>3,288,465</b>	56,186,226
Bonus issue	<b>3,928,267</b>	2,819,167
Sales	<b>(1,962,605)</b>	(8,900,570)
Balance as at 31 December	<b>85,782,085</b>	80,527,958

The balance in the treasury share reserve account is not available for distribution.

National Bank of Kuwait Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

17 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

	<b>KD 000's</b>						
	<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 2012	117,058	729,601	(33,032)	23,357	10,469	157,092	1,004,545
Profit for the year	-	305,125	-	-	-	-	305,125
Other comprehensive (loss) income	-	-	(2,490)	3,204	-	-	714
<b>Total comprehensive income (loss)</b>	-	305,125	(2,490)	3,204	-	-	305,839
Transfer to statutory reserve (Note 17b)	-	(19,789)	-	-	-	-	(19,789)
Dividends paid	-	-	-	-	-	(157,181)	(157,181)
Dividends on treasury shares sold	-	(89)	-	-	-	89	-
Proposed bonus shares (Note 18)	-	(21,768)	-	-	-	-	(21,768)
Proposed cash dividend 30 fils per share (Note 18)	-	(128,189)	-	-	-	128,189	-
Share based payment (Note 19)	-	-	-	-	1,844	-	1,844
Acquisition of non-controlling interests	-	(393)	-	-	-	-	(393)
<b>At 31 December 2012</b>	<b>117,058</b>	<b>864,498</b>	<b>(35,522)</b>	<b>26,561</b>	<b>12,313</b>	<b>128,189</b>	<b>1,113,097</b>
Profit for the year	-	238,137	-	-	-	-	<b>238,137</b>
Other comprehensive (loss) income	-	-	(34,244)	8,258	-	-	<b>(25,986)</b>
<b>Total comprehensive income (loss)</b>	-	<b>238,137</b>	<b>(34,244)</b>	<b>8,258</b>	-	-	<b>212,151</b>
Transfer to statutory reserve (Note 17b)	-	(10,884)	-	-	-	-	<b>(10,884)</b>
Dividends paid	-	-	-	-	-	(128,248)	<b>(128,248)</b>
Dividends on treasury shares sold	-	(59)	-	-	-	59	-
Proposed bonus shares (Note 18)	-	(22,856)	-	-	-	-	<b>(22,856)</b>
Proposed cash dividend 30 fils per share (Note 18)	-	(134,562)	-	-	-	134,562	-
Share based payment (Note 19)	-	-	-	-	1,290	-	<b>1,290</b>
<b>At 31 December 2013</b>	<b>117,058</b>	<b>934,274</b>	<b>(69,766)</b>	<b>34,819</b>	<b>13,603</b>	<b>134,562</b>	<b>1,164,550</b>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 17 SHARE CAPITAL AND RESERVES (continued)

#### e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

### 18 PROPOSED DIVIDEND

The Board of Directors recommended distribution of a cash dividend of 30 fils per share (2012: 30 fils per share) and bonus shares of 5% (2012: 5%) on outstanding shares as at 31 December 2013. The proposed dividend, if approved, shall be payable to the shareholders registered in the Bank's records as of the date of the annual general assembly meeting.

### 19 SHARE BASED PAYMENT

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.780 (2012: KD 0.914). The significant inputs into the model were a share price of KD 0.960 (2012: KD 1.120) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 33.8% (2012: 45.6%), option life disclosed above and annual risk free interest rate of 2% (2012: 2.50%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	<u>2013</u>	<u>2012</u>
	<u>No. of share options</u>	<u>No. of share options</u>
Outstanding at 1 January	5,691,190	7,132,651
Granted during the year	2,134,004	1,666,920
Exercised during the year	(1,962,605)	(2,510,570)
Lapsed during the year	(788,681)	(597,811)
Outstanding at 31 December	<u>5,073,908</u>	<u>5,691,190</u>

Boubyan Bank K.S.C.P. also operates an equity settled share based compensation plan and granted share options to its senior executives. The expense accrued on account of share based compensation plans for the year amounts to KD 1,424 thousand (2012: KD 1,868 thousand) and is included under staff expenses.

**20 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in orderly transactions between market participants at the measurement date.

The fair value of investment securities, quoted in an active market (stock exchanges and actively traded funds) amounts to KD 1,252,251 thousand (2012: KD 590,987 thousand) for debt securities and KD 189,571 thousand (2012: KD 187,442 thousand) for equities and other investments. Investment securities, which are tradable over the counter and / or are valued by using a significant input of observable market data amounts to KD 654,967 thousand (2012: KD 541,131 thousand) for debt securities and KD 39,018 thousand (2012: KD 88,680 thousand) for equities and other investments. Debt securities under this category mainly include sovereign debt instruments in the Middle East & North Africa (MENA) region.

Investment securities, for which a significant input of the valuation is not based on observable market data amounts to KD 44,900 thousand (2012: KD 45,530 thousand) for debt securities and KD 89,619 thousand (2012: KD 95,502 thousand) for equities and other investments. The table below analyses the movement in these investment securities and the income (interest, dividend and realised gain) generated during the year.

	<i>At 1 January 2013 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 December 2013 KD 000's</i>	<i>Net gains in the consolidated statement of income KD 000's</i>
Debt securities	45,530	-	-	(789)	159	44,900	1,451
Equities and other investments	95,502	3,447	5,767	(15,234)	137	89,619	6,150
	<u>141,032</u>	<u>3,447</u>	<u>5,767</u>	<u>(16,023)</u>	<u>296</u>	<u>134,519</u>	<u>7,601</u>

	<i>At 1 January 2012 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 December 2012 KD 000's</i>	<i>Net gains in the consolidated statement of income KD 000's</i>
Debt securities	55,476	-	30,406	(40,852)	500	45,530	1,455
Equities and other investments	62,917	5,358	31,118	(4,012)	121	95,502	3,791
	<u>118,393</u>	<u>5,358</u>	<u>61,524</u>	<u>(44,864)</u>	<u>621</u>	<u>141,032</u>	<u>5,246</u>

The positive and negative fair values of interest rate swaps and forward foreign exchange contracts, which are valued using significant inputs of observable market data, amount to KD 15,837 thousand (2012: KD 12,529 thousand) and KD 13,799 thousand (2012: KD 17,430 thousand) respectively (refer note 23 for details).

Other financial assets and liabilities are carried at amortized cost and the carrying values are not materially different from their fair values as most of these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 21 SUBSIDIARIES

Principal operating subsidiaries:

<i>Name of entities</i>	<i>Country of incorporation</i>	<i>Principal business</i>	<i>% Effective ownership</i>	
			<i>2013</i>	<i>2012</i>
National Bank of Kuwait (International) plc	United Kingdom	Banking	<b>100.0</b>	100.0
NBK Banque Privée (Suisse) S.A.	Switzerland	Investment management	<b>100.0</b>	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	<b>85.5</b>	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment management	<b>100.0</b>	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	<b>81.0</b>	81.0
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment Company	<b>99.9</b>	99.9
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	<b>86.7</b>	86.7
Al Watany Bank of Egypt S.A.E.	Egypt	Banking	<b>98.5</b>	98.5
Boubyan Bank K.S.C.P.	Kuwait	Islamic Banking	<b>58.4</b>	58.4

At 31 December 2013, 38.1 % (2012: 38.1%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

Boubyan Bank K.S.C.P. became subsidiary of the Group during the year ended 31 December 2012 (Note 26).

The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 29.

Significant non-controlling interest exists in Boubyan Bank K.S.C.P. as follows:

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Accumulated balances of non-controlling interest	<b>189,530</b>	177,043
Profit attributable to non-controlling interest	<b>12,500</b>	2,578

Summarised financial information of Boubyan Bank K.S.C.P. are as follows:

<i>Summarised financial information</i>	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Assets	<b>2,192,985</b>	1,884,656
Liabilities	<b>1,922,632</b>	1,628,492
Net operating income	<b>67,074</b>	58,879
Results for the year	<b>13,586</b>	9,536
Other comprehensive loss for the year	<b>(3,438)</b>	(723)

<i>Summarised cash flow information</i>	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Operating cash flow	<b>49,151</b>	(25,985)
Investing cash flow	<b>(16,777)</b>	2,565
Financing cash flow	<b>3,717</b>	993



# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 22 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	<b>46,699</b>	85,689
Letters of credit	<b>299,048</b>	307,416
Guarantees	<b>2,237,844</b>	2,067,690
	<b><u>2,583,591</u></b>	<b><u>2,460,795</u></b>

Irrevocable commitments to extend credit amount to KD 453,151 thousand (31 December 2012: KD 318,110 thousand). This represents commitments to extend credit which is irrevocable over the life of the facility or is 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 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.

### 23 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.

Interest rate swaps and forward foreign exchange contracts 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 interest rate swaps and forward foreign exchange contracts are 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 asset and liabilities. 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. 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 for customers are covered by entering into similar transactions 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.

#### **Forward foreign exchange**

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

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 23 INTEREST RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS (continued)

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:

	2013			2012		
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional KD 000's</i>	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional KD 000's</i>
Interest rate swaps (held as fair value hedges)	<b>6,861</b>	<b>10,953</b>	<b>398,057</b>	21	14,348	136,480
Forward foreign exchange	<b>8,976</b>	<b>2,846</b>	<b>1,027,343</b>	12,508	3,082	895,735
	<b>15,837</b>	<b>13,799</b>	<b>1,425,400</b>	12,529	17,430	1,032,215

The net fair value of interest rate swaps held as fair value hedges as at 31 December 2013 is negative KD 4,092 thousand (2012: negative KD 14,327 thousand). Gain on the hedged fixed income financial assets amounted to KD 6,250 thousand (2012: KD 15,131 thousand).

### 24 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:

	<i>Number of Board Members or Executive Officers</i>		<i>Number of related parties</i>		<i>2013 KD 000's</i>	<i>2012 KD 000's</i>
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>		
<b>Board Members</b>						
Loans (secured)	<b>4</b>	4	<b>16</b>	17	<b>197,421</b>	204,635
Contingent liabilities	<b>1</b>	1	<b>13</b>	12	<b>27,975</b>	13,446
Credit cards	<b>7</b>	8	<b>10</b>	12	<b>60</b>	59
Deposits	<b>9</b>	9	<b>59</b>	62	<b>24,128</b>	28,376
Collateral against credit facilities	<b>4</b>	4	<b>16</b>	16	<b>349,213</b>	363,105
Interest and fee income					<b>7,009</b>	7,650
Interest expense					<b>83</b>	381
<b>Executive Officers</b>						
Loans	<b>5</b>	3	<b>2</b>	1	<b>1,388</b>	1,290
Contingent liabilities	<b>4</b>	2	-	-	<b>7</b>	6
Credit cards	<b>12</b>	5	<b>2</b>	2	<b>35</b>	23
Deposits	<b>14</b>	8	<b>23</b>	23	<b>1,704</b>	1,283
Interest and fee income					<b>53</b>	50
Interest expense					<b>1</b>	2
<b>Associates</b>						
Placements					<b>78,160</b>	195,268
Acceptances					<b>745</b>	544

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 25 KEY MANAGEMENT COMPENSATION

Details of compensation to key management personnel are as follows:

	<b>2013</b>	<i>(Restated)</i>
	<b>KD 000's</b>	<b>2012</b>
		<b>KD 000's</b>
Salaries and other short term benefits	<b>3,455</b>	3,564
Post-employment benefits	<b>251</b>	378
Share based compensation	<b>302</b>	479
	<b>4,008</b>	4,421

The Board of Directors does not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

### 26 BUSINESS COMBINATION

The Bank obtained control of Boubyan Bank K.S.C.P. during 2012 and provisional values were assigned to the identifiable assets and liabilities acquired pending finalisation of the purchase price allocation (PPA) exercise. During the period, the Bank completed the PPA exercise in accordance with requirements of IFRS 3 'Business Combinations' by allocating a portion of the provisional goodwill to various intangible assets identified and fair valuing certain tangible assets. The residual value was accounted as goodwill which represents the future economic benefits arising from assets acquired in the business combination that are not individually identified and separately recognised.

Intangible assets identified were Islamic Banking license and brand amounting to KD 158,623 thousand with indefinite useful life and customer relationship and core deposits amounting to KD 24,707 thousand with useful life of 15 years. The fair value of net assets acquired have been adjusted by reducing the Islamic financing to customers by KD 13,802 thousand, Investment securities by KD 2,701 thousand and other assets by KD 3,444 thousand. The fair value of other assets and liabilities (including contingent liabilities) acquired, do not materially differ from their provisionally determined carrying values. The impact of above adjustments have resulted in decrease in goodwill by KD 95,399 thousand and increase in non-controlling interests by KD 67,984 thousand. The comparative numbers in the consolidated statement of financial position presented for 31 December 2012 have been restated to reflect the above fair value adjustments. The impact of restatement on the consolidated statement of income is not material, and therefore the same has been recognised in the current year.

### 27 RISK MANAGEMENT

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy which embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight are provided by the Board of Directors with the support of the Board Risk Committee and the Board Audit Committee. The Group's Risk Management and Internal Audit functions assist Executive Management in controlling and actively managing the Group's overall risk profile.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses interest rate swaps, forward foreign exchange contracts and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

**27 RISK MANAGEMENT (continued)**

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentration of risk.

**27.1 CREDIT RISK**

Credit risk is the risk that counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

**27.1.1 MAXIMUM EXPOSURE TO CREDIT RISK**

An analysis of loans, advances and Islamic facilities to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements, is as follows:

	<i>2013</i>		<i>2012</i>	
	<i>Gross exposure KD 000's</i>	<i>Net exposure KD 000's</i>	<i>Gross exposure KD 000's</i>	<i>Net exposure KD 000's</i>
Loans, advances and Islamic financing to customers	<b>10,695,317</b>	<b>6,797,205</b>	9,860,620	6,482,479
Contingent liabilities	<b>2,583,591</b>	<b>2,412,151</b>	2,460,795	2,356,279

**Collateral and other credit enhancements**

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.1 CREDIT RISK (continued)

##### 27.1.2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans, advances and Islamic financing to customers outstanding as a percentage of gross loans, advances and Islamic financing to customers as at 31 December 2013 is 18% (2012: 19%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

2013	<i>Middle East and North Africa</i>					
	<i>North Africa</i> KD 000's	<i>North America</i> KD 000's	<i>Europe</i> KD 000's	<i>Asia</i> KD 000's	<i>Others</i> KD 000's	<i>Total</i> KD 000's
Cash and deposits with banks	1,927,111	1,047,033	277,052	60,535	-	3,311,731
Central Bank of Kuwait bonds	534,459	-	-	-	-	534,459
Kuwait Government treasury Bonds	320,248	-	-	-	-	320,248
Loans, advances and Islamic financing to customers	9,941,635	153,175	285,141	133,007	182,359	10,695,317
Held to maturity investments	65,498	-	-	11,147	-	76,645
Available for sale investments	1,492,899	46,750	130,772	273,387	8,310	1,952,118
Other assets	146,451	1,500	5,527	1,179	72	154,729
	<u>14,428,301</u>	<u>1,248,458</u>	<u>698,492</u>	<u>479,255</u>	<u>190,741</u>	<u>17,045,247</u>
Commitments and contingent liabilities (Note 22)	1,810,998	220,327	436,590	568,272	555	3,036,742
	<u>16,239,299</u>	<u>1,468,785</u>	<u>1,135,082</u>	<u>1,047,527</u>	<u>191,296</u>	<u>20,081,989</u>
2012	<i>Middle East and North Africa</i>					
	<i>North Africa</i> KD 000's	<i>North America</i> KD 000's	<i>Europe</i> KD 000's	<i>Asia</i> KD 000's	<i>Others</i> KD 000's	<i>Total</i> KD 000's
Cash and deposits with banks	1,932,651	545,488	288,612	47,432	-	2,814,183
Central Bank of Kuwait bonds	614,152	-	-	-	-	614,152
Kuwait Government treasury Bonds	356,211	-	-	-	-	356,211
Loans, advances and Islamic financing to customers	9,248,115	111,924	289,388	80,720	130,473	9,860,620
Held to maturity investments	16,922	-	-	8,748	-	25,670
Available for sale investments	1,003,684	19,312	92,771	61,881	-	1,177,648
Other assets	99,392	1,271	4,692	850	-	106,205
	<u>13,271,127</u>	<u>677,995</u>	<u>675,463</u>	<u>199,631</u>	<u>130,473</u>	<u>14,954,689</u>
Commitments and contingent liabilities (Note 22)	1,699,403	180,859	391,990	504,553	2,100	2,778,905
	<u>14,970,530</u>	<u>858,854</u>	<u>1,067,453</u>	<u>704,184</u>	<u>132,573</u>	<u>17,733,594</u>

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.1 CREDIT RISK (continued)

##### 27.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	<i>2013</i> <i>KD 000's</i>	<i>2012</i> <i>KD 000's</i>
<b>Industry sector</b>		
Trading	<b>1,910,412</b>	1,689,277
Manufacturing	<b>1,200,670</b>	1,068,342
Banks and other financial institutions	<b>6,065,391</b>	5,209,827
Construction	<b>1,128,366</b>	990,787
Real Estate	<b>2,114,007</b>	1,974,608
Retail	<b>3,341,919</b>	2,906,121
Government	<b>1,556,393</b>	1,292,891
Others	<b>2,764,831</b>	2,601,741
	<b>20,081,989</b>	17,733,594

##### 27.1. 3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	<i>Neither past due nor impaired</i>		<i>Past due</i>	<i>Total</i>
	<i>High</i>	<i>Standard</i>	<i>or impaired</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>2013</b>				
Deposits and Murabaha with banks maturing within seven days	<b>706,157</b>	-	-	<b>706,157</b>
Central Bank of Kuwait bonds	<b>534,459</b>	-	-	<b>534,459</b>
Kuwait Government treasury bonds	<b>320,248</b>	-	-	<b>320,248</b>
Deposits with banks	<b>767,864</b>	<b>131,808</b>	-	<b>899,672</b>
Loans, advances and Islamic financing to customers	<b>9,184,401</b>	<b>1,667,444</b>	<b>278,925</b>	<b>11,130,770</b>
Held to maturity investments	<b>11,147</b>	<b>65,498</b>	-	<b>76,645</b>
Available for sale investments	<b>1,445,052</b>	<b>507,066</b>	-	<b>1,952,118</b>
	<b>12,969,328</b>	<b>2,371,816</b>	<b>278,925</b>	<b>15,620,069</b>
<b>2012</b>				
Deposits and Murabaha with banks maturing within seven days	598,440	-	-	598,440
Central Bank of Kuwait bonds	614,152	-	-	614,152
Kuwait Government treasury bonds	356,211	-	-	356,211
Deposits with banks	1,141,648	61,770	-	1,203,418
Loans, advances and Islamic financing to customers	8,228,225	1,738,183	339,574	10,305,982
Held to maturity investments	8,748	16,922	-	25,670
Available for sale investments	743,117	434,531	-	1,177,648
	11,690,541	2,251,406	339,574	14,281,521

31 December 2013

**27 RISK MANAGEMENT (continued)****27.1 CREDIT RISK (continued)****27.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS, ADVANCES AND ISLAMIC FINANCING TO CUSTOMERS**

	<i>Corporate</i>		<i>Retail</i>		<i>Total</i>	
	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>
<b>2013</b>						
Up to 30 days	<b>6,655</b>	-	<b>25,182</b>	-	<b>31,837</b>	-
31 - 60 days	<b>1,505</b>	-	<b>9,120</b>	-	<b>10,625</b>	-
61 - 90 days	<b>16,344</b>	-	<b>2,225</b>	-	<b>18,569</b>	-
91-180 days	-	<b>1,541</b>	-	<b>15,334</b>	-	<b>16,875</b>
More than 180 days	-	<b>139,592</b>	-	<b>61,427</b>	-	<b>201,019</b>
	<b>24,504</b>	<b>141,133</b>	<b>36,527</b>	<b>76,761</b>	<b>61,031</b>	<b>217,894</b>
<b>2012</b>						
Up to 30 days	12,789	-	21,467	-	34,256	-
31 - 60 days	2,049	-	9,655	-	11,704	-
61 - 90 days	8,766	-	1,342	-	10,108	-
91-180 days	-	16,842	-	11,375	-	28,217
More than 180 days	-	206,230	-	49,059	-	255,289
	23,604	223,072	32,464	60,434	56,068	283,506

Of the aggregate amount of gross past due or impaired loans, advances and Islamic financing to customers, the fair value of collateral that the Group held as at 31 December 2013 was KD 103,145 thousand (2012: KD 154,869 thousand).

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.2 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The table below summarises the maturity profile of Group's assets, liabilities and equity based on contractual cash flows and maturity dates. This does not necessarily take account of the effective maturities.

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>2013</b>				
<b>Assets</b>				
Cash and deposits with banks	3,169,693	142,038	-	3,311,731
Central Bank of Kuwait bonds	358,419	176,040	-	534,459
Kuwait Government treasury bonds	24,766	174,796	120,686	320,248
Loans, advances and Islamic financing to Customers	3,863,163	1,466,606	5,365,548	10,695,317
Held to maturity investments	67,976	1,129	7,540	76,645
Available for sale investments	206,658	278,549	1,730,205	2,215,412
Investments carried at fair value through statement of income	58,118	-	-	58,118
Investment in associates	-	-	259,801	259,801
Land, premises and equipment	-	-	192,199	192,199
Goodwill and other intangible assets	-	-	700,085	700,085
Other assets	100,708	54,021	81,401	236,130
	<u>7,849,501</u>	<u>2,293,179</u>	<u>8,457,465</u>	<u>18,600,145</u>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	3,954,060	917,400	73,405	4,944,865
Customer deposits	9,038,550	1,231,013	208,485	10,478,048
Certificates of deposit issued	235,343	5,641	-	240,984
Other liabilities	171,522	-	52,932	224,454
Share capital and reserves	-	-	2,374,282	2,374,282
Proposed cash dividend	134,562	-	-	134,562
Non-controlling interests	-	-	202,950	202,950
	<u>13,534,037</u>	<u>2,154,054</u>	<u>2,912,054</u>	<u>18,600,145</u>



# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.2 LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
2012				
<b>Assets</b>				
Cash and deposits with banks	2,730,473	79,491	4,219	2,814,183
Central Bank of Kuwait bonds	444,626	169,526	-	614,152
Kuwait Government treasury bonds	93,184	162,454	100,573	356,211
Loans, advances and Islamic financing to customers	3,924,764	2,059,483	3,876,373	9,860,620
Held to maturity investments	19,237	-	6,433	25,670
Available for sale investments	175,377	280,722	980,566	1,436,665
Investments carried at fair value through statement of income	114,814	-	-	114,814
Investment in associates	-	-	213,175	213,175
Land, premises and equipment	-	-	191,485	191,485
Goodwill and other intangible assets	-	-	722,933	722,933
Other assets	84,166	22,039	36,358	142,563
	<u>7,586,641</u>	<u>2,773,715</u>	<u>6,132,115</u>	<u>16,492,471</u>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	3,330,196	732,124	92,663	4,154,983
Customer deposits	7,954,248	1,259,383	294,123	9,507,754
Other liabilities	164,035	-	49,704	213,739
Share capital and reserves	-	-	2,298,326	2,298,326
Proposed cash dividend	128,189	-	-	128,189
Non-controlling interests	-	-	189,480	189,480
	<u>11,576,668</u>	<u>1,991,507</u>	<u>2,924,296</u>	<u>16,492,471</u>

The liquidity profile of financial liabilities of the Group summarised below reflects the cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>2013</b>				
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	3,956,268	921,453	76,630	4,954,351
Customer deposits	9,058,005	1,254,496	224,108	10,536,609
Certificates of deposit issued	235,460	5,646	-	241,106
	<u>13,249,733</u>	<u>2,181,595</u>	<u>300,738</u>	<u>15,732,066</u>
<b>Contingent liabilities and commitments</b>				
Contingent liabilities	762,777	733,579	1,087,235	2,583,591
Irrevocable commitments	128,936	154,883	169,332	453,151
	<u>891,713</u>	<u>888,462</u>	<u>1,256,567</u>	<u>3,036,742</u>
<b>Forward foreign exchange contracts settled on a gross basis</b>				
Contractual amounts payable	902,146	119,657	1,595	1,023,398
Contractual amounts receivable	897,344	117,160	1,595	1,016,099

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.2 LIQUIDITY RISK (continued)

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
2012				
Financial Liabilities				
Due to banks and other financial institutions	3,333,216	737,174	96,564	4,166,954
Customer deposits	7,977,762	1,276,632	325,485	9,579,879
	<u>11,310,978</u>	<u>2,013,806</u>	<u>422,049</u>	<u>13,746,833</u>
Contingent liabilities and commitments				
Contingent liabilities	758,184	757,310	945,301	2,460,795
Irrevocable commitments	25,947	190,189	101,974	318,110
	<u>784,131</u>	<u>947,499</u>	<u>1,047,275</u>	<u>2,778,905</u>
Forward foreign exchange contracts settled on a gross basis				
Contractual amounts payable	747,882	141,532	3,758	893,172
Contractual amounts receivable	739,415	139,394	3,758	882,567

#### 27.3 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

##### 27.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and most exposures arising on medium term fixed rate lending or fixed rate borrowing are covered by interest rate swaps. Furthermore, the reverse cumulative interest rate gap is carefully monitored on a daily basis and adjusted where necessary to reflect changing market conditions.

##### Interest rate sensitivity

Interest rate sensitivity of profit measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity of equity is the impact arising from changes in interest rate on fair value of available for sale investments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and financial liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit and equity as follows:

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.3 MARKET RISK (continued)

##### 27.3.1 INTEREST RATE RISK (continued)

Currency	Movement in Basis points	2013		2012	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
KWD	+25	4,380	-	4,624	-
USD	+25	(2,305)	(4,908)	(1,041)	(2,867)
EUR	+25	(168)	(16)	(186)	(19)
GBP	+25	(81)	-	(51)	-
EGP	+25	149	(457)	97	(325)

##### 27.3.2 FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

Currency	% Change in currency rate	2013		2012	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
USD	+5	187	1,106	1,586	1,003
GBP	+5	74	-	(711)	-
EUR	+5	216	-	(454)	-
EGP	+5	182	10,606	228	11,846
QAR	+5	-	5,520	-	5,538
TRY	+5	-	1,290	-	1,521
IDR	+5	-	2,615	-	2,043
Other	+5	(314)	4,094	119	3,120

##### 27.3.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The table below analyses the effect of equity price risk on profit (as a result of change in the fair value of equity investments held as fair value through statement of income) and on equity (as a result of change in the fair value of equity investments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant.

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

### 27 RISK MANAGEMENT (continued)

#### 27.3 MARKET RISK (continued)

##### 27.3.3 EQUITY PRICE RISK (continued)

Market indices	% Change in equity price	2013		2012	
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	51	1,090	51	767
Doha securities market	+5	-	555	-	424

#### 27.4 OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

### 28 CAPITAL

A key Group objective is to maximise shareholder value with optimal levels of risk and to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait. The Group's regulatory capital and capital adequacy ratios are shown below:

	2013 KD 000's	(Restated) 2012 KD 000's
Risk Weighted Assets	11,253,031	10,298,557
Capital required	1,350,364	1,235,827
Capital available		
Tier 1 capital	1,891,918	1,820,791
Tier 2 capital	56,128	62,477
Total capital	1,948,046	1,883,268
Tier 1 capital adequacy ratio	16.8%	17.7%
Total capital adequacy ratio	17.3%	18.3%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/BS/184/2005 dated 21 December 2005 are included under the 'Risk Management' section of the annual report.

The calculations include Boubyan Bank K.S.C.P., an Islamic Banking subsidiary (note 26). For purposes of determining risk-weighted assets and capital required, exposures and assets at Boubyan Bank K.S.C.P. are risk weighted, and capital charge calculated, in accordance with Central Bank of Kuwait regulations applicable to banks providing banking services compliant with Codes of Islamic Sharia'a. Those figures are then added to corresponding figures pertaining to all the rest of the Group, identical with the treatment in relevant reports submitted to the Central Bank of Kuwait.

**29 FUNDS UNDER MANAGEMENT**

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly, the assets of these funds are not included in the consolidated statement of financial position. As at 31 December 2013, funds under management were KD 3,067 million (2012: KD 2,817 million).

**30 FAMILY SUPPORT FUND**

During the year, the Central Bank of Kuwait issued its Circular No. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 104/2013. Ministry of Finance has established a Fund to purchase outstanding balance of instalment and consumer loans from the Bank as on 12 June 2013 for loans granted before 30 March 2008. The Bank has submitted its report on the list of loans eligible for the Fund.

**NATIONAL BANK OF KUWAIT GROUP**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2013**