

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

31 MARCH 2016 (UNAUDITED)

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

31 March 2016 (Unaudited)

	Notes	Three months ended 31 March	
		2016 KD 000's	2015 KD 000's
Interest income		155,722	136,993
Interest expense		42,056	30,547
Net interest income		113,666	106,446
Murabaha and other Islamic financing income		29,907	24,340
Distribution to depositors and Murabaha costs		6,950	5,518
Net income from Islamic financing		22,957	18,822
Net interest income and net income from Islamic financing		136,623	125,268
Net fees and commissions		33,410	30,748
Net investment income	3	1,467	30,481
Net gains from dealing in foreign currencies		7,399	7,447
Other operating income		339	589
Non-interest income		42,615	69,265
Net operating income		179,238	194,533
Staff expenses		33,905	30,903
Other administrative expenses		19,499	17,571
Depreciation of premises and equipment		4,049	3,806
Amortisation of intangible assets		1,198	1,250
Operating expenses		58,651	53,530
Operating profit before provision for credit losses and impairment losses		120,587	141,003
Provision charge for credit losses and impairment losses	4	30,917	28,889
Operating profit before taxation		89,670	112,114
Taxation	5	6,966	12,567
Profit for the period		82,704	99,547
Attributable to:			
Shareholders of the Bank		78,935	96,518
Non-controlling interests		3,769	3,029
		82,704	99,547
Basic and diluted earnings per share attributable to shareholders of the Bank	6	15 fils	19 fils

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2016 (Unaudited)

	Three months ended 31 March	
	2016 KD 000's	2015 KD 000's
Profit for the period	82,704	99,547
Other comprehensive income:		
Investments available for sale:		
Net change in fair value	(10,465)	9,617
Net transfer to consolidated statement of income	4,247	411
Exchange differences and share of other comprehensive income transferred to consolidated statement of income on sale of an associate	-	(8,471)
Share of other comprehensive income of associates	(20)	(19)
Exchange differences on translation of foreign operations	(30,593)	(6,425)
Other comprehensive loss for the period reclassifiable to consolidated statement of income in subsequent periods	(36,831)	(4,887)
Total comprehensive income for the period	45,873	94,660
Attributable to:		
Shareholders of the Bank	42,038	91,535
Non-controlling interests	3,835	3,125
	45,873	94,660

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2016 (Unaudited)

		Audited	
		31 December	31 March
		2015	2015
	Notes	KD 000's	KD 000's
Assets			
Cash and short term funds		3,481,371	3,925,533
Central Bank of Kuwait bonds		803,930	599,043
Kuwait Government treasury bonds		380,052	340,070
Deposits with banks		1,426,679	2,153,533
Loans, advances and Islamic financing to customers		13,550,966	12,369,259
Investment securities		2,784,334	2,752,063
Investment in associates		92,713	115,276
Land, premises and equipment		226,501	210,200
Goodwill and other intangible assets		677,594	684,421
Other assets		173,490	172,758
Total assets		23,597,630	23,322,156
Liabilities			
Due to banks and other financial institutions		7,306,467	7,932,251
Customer deposits		12,059,203	11,686,485
Certificates of deposit issued		655,257	601,251
Subordinated Tier 2 bonds		124,664	-
Other liabilities		260,915	281,831
Total liabilities		20,406,506	20,501,818
Equity			
Share capital	7	503,972	503,972
Proposed bonus shares	7	25,198	-
Statutory reserve		251,986	239,987
Share premium account		699,840	699,840
Treasury shares	7	(77,799)	(77,800)
Treasury shares reserve		13,994	13,995
Other reserves	7	1,338,748	1,223,912
Equity attributable to shareholders of the Bank		2,755,939	2,603,906
Perpetual Tier 1 Capital Securities		210,700	-
Non-controlling interests		224,485	216,432
Total equity		3,191,124	2,820,338
Total liabilities and equity		23,597,630	23,322,156

Nasser Musaed Abdullah Al-Sayer
Chairman

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2016 (Unaudited)

	Notes	Three months ended 31 March	
		2016 KD 000's	2015 KD 000's
Operating activities			
Profit for the period		82,704	99,547
Adjustments for:			
Net investment income		(1,467)	(30,481)
Depreciation of premises and equipment		4,049	3,806
Amortisation of intangible assets		1,198	1,250
Provision charge for credit losses and impairment losses	4	30,917	28,889
Share based payment reserve		153	437
Taxation	5	6,966	12,567
Operating profit before changes in operating assets and liabilities		124,520	116,015
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		123,255	(64,355)
Kuwait Government treasury bonds		(10,427)	4,459
Deposits with banks		(358,398)	(103,018)
Loans, advances and Islamic financing to customers		(29,846)	(481,388)
Other assets		(17,988)	(10,387)
Due to banks and other financial institutions		960,338	1,226,534
Customer deposits		204,327	426,749
Certificates of deposit issued		10,020	(73,814)
Other liabilities		25,735	17,349
Tax paid		(6,479)	(12,142)
Net cash from operating activities		1,025,057	1,046,002
Investing activities			
Purchase of investment securities		(473,044)	(496,353)
Proceeds from sale/redemption of investment securities		469,935	247,439
Dividend income		1,082	963
Proceeds from disposal of an associate		-	157,857
Dividend from associates		397	-
Proceeds from sale of land, premises and equipment		1,131	85
Purchase of land, premises and equipment		(12,093)	(10,677)
Net cash used in investing activities		(12,592)	(100,686)
Financing activities			
Dividends paid	7	(148,443)	(141,374)
Proceeds from sale of treasury shares		-	112
Dividend paid by a subsidiary to non-controlling interests		(4,295)	(4,087)
Net cash used in financing activities		(152,738)	(145,349)
Increase in cash and short term funds		859,727	799,967
Exchange difference on translation of foreign operations		(30,593)	(6,425)
Cash and short term funds at 1 January		3,481,371	3,131,991
Cash and short term funds at 31 March		4,310,505	3,925,533

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

31 March 2016 (Unaudited)

	Equity attributable to shareholders of the Bank										KD 000's
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury shares reserve	Other reserves (Note 7)	Total	Perpetual Tier 1 Capital Securities	Non-controlling interests	Total
At 1 January 2015	479,973	23,999	239,987	699,840	(78,795)	14,878	1,273,389	2,653,271	-	217,269	2,870,540
Profit for the period	-	-	-	-	-	-	96,518	96,518	-	3,029	99,547
Other comprehensive (loss) income	-	-	-	-	-	-	(4,983)	(4,983)	-	96	(4,887)
Total comprehensive income	-	-	-	-	-	-	91,535	91,535	-	3,125	94,660
Issue of bonus shares (Note 7)	23,999	(23,999)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(141,374)	(141,374)	-	-	(141,374)
Sale of treasury shares	-	-	-	-	995	(883)	-	112	-	-	112
Share based payment	-	-	-	-	-	-	382	382	-	55	437
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,087)	(4,087)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(20)	(20)	-	70	50
At 31 March 2015	503,972	-	239,987	699,840	(77,800)	13,995	1,223,912	2,603,906	-	216,432	2,820,338
At 1 January 2016	503,972	25,198	251,986	699,840	(77,799)	13,994	1,338,748	2,755,939	210,700	224,485	3,191,124
Profit for the period	-	-	-	-	-	-	78,935	78,935	-	3,769	82,704
Other comprehensive (loss) income	-	-	-	-	-	-	(36,897)	(36,897)	-	66	(36,831)
Total comprehensive income	-	-	-	-	-	-	42,038	42,038	-	3,835	45,873
Issue of bonus shares (Note 7)	25,198	(25,198)	-	-	-	-	-	-	-	-	-
Dividends paid (Note 7)	-	-	-	-	-	-	(148,443)	(148,443)	-	-	(148,443)
Transfer to cash settled share based compensation (Note 13)	-	-	-	-	-	-	(2,418)	(2,418)	-	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	-	-	89	89	-	64	153
Dividend paid by a subsidiary to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,295)	(4,295)
Change in effective holding in a subsidiary	-	-	-	-	-	-	(25)	(25)	-	72	47
At 31 March 2016	529,170	-	251,986	699,840	(77,799)	13,994	1,229,989	2,647,180	210,700	224,161	3,082,041

The attached notes 1 to 13 form part of these interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K.P. (the “Bank”) and its subsidiaries (collectively the “Group”) for the three months period ended 31 March 2016 were authorised for issue in accordance with a resolution of the directors on 7 April 2016. The Bank is a public shareholding company incorporated in the State of Kuwait in 1952 and is registered as a Bank with the Central Bank of Kuwait. The Bank’s registered office is at Abdullah Al Ahmed Street, P.O. Box 95, Safat 13001, Kuwait.

2 Accounting policies

The interim condensed consolidated financial information of the Group has been prepared in accordance with International Accounting Standard (IAS) 34, ‘Interim Financial Reporting’. The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2015, except as noted below.

The annual consolidated financial statements for the year ended 31 December 2015 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39, ‘Financial Instruments: Recognition and Measurement’, requirement for collective impairment provision, which has been replaced by the Central Bank of Kuwait’s requirement for a minimum general provision made on all applicable credit facilities (net of certain categories of collateral) that are not provided specifically.

The interim condensed consolidated financial information does not contain all information and disclosures required for the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2015. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

The following new accounting policy relating to cash settled share based compensation has been included in the preparation of this interim condensed consolidated financial information. (Refer note 13)

Cash settled share based compensation

The fair value of the employee services received in exchange for the cash settled share based payment is recognised as an expense, together with a corresponding increase in liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options determined using the Black Scholes model. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the consolidated statement of income.

Amendments to IFRSs which are effective for annual accounting period starting 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

3 Net investment income

Net investment income for the period ended 31 March 2015 included a provisional pre-tax gain amounting to KD 27,920 thousand on sale of investment in an associate.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

4 Provision charge for credit losses and impairment losses

	Three months ended 31 March	
	2016 KD 000's	2015 KD 000's
Provision charge for credit losses – specific	5,952	8,718
Provision charge for credit losses – general	13,972	12,848
Impairment losses	10,993	7,323
	<u>30,917</u>	<u>28,889</u>

5 Taxation

	Three months ended 31 March	
	2016 KD 000's	2015 KD 000's
National labour support tax	1,978	2,400
Zakat	855	1,033
Contribution to Kuwait Foundation for the Advancement of Sciences	662	823
Overseas tax	3,471	8,311
	<u>6,966</u>	<u>12,567</u>

6 Earnings per share

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

Diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share for 2015 arising from the issuance of employee share options did not result in any change from the reported basic earnings per share. Refer note 13 in this regard.

	Three months ended 31 March	
	2016 KD 000's	2015 KD 000's
Profit attributable to shareholders of the Bank	<u>78,935</u>	<u>96,518</u>
Weighted average number of shares outstanding during the period (thousands)	<u>5,195,495</u>	<u>5,195,170</u>
Basic and diluted earnings per share	<u>15 fils</u>	<u>19 fils</u>

Earnings per share calculations for the period ended 31 March 2015 have been adjusted to take account of the bonus shares issued in 2016.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

31 March 2016 (Unaudited)

7 Shareholders' equity

- a) The authorised share capital of the Bank comprises of 6,000,000,000 shares (31 December 2015: 5,039,717,687 shares and 31 March 2015: 5,039,717,687 shares) of 100 fils each. The increase in the authorised share capital was approved by the Extraordinary General Assembly meeting of the shareholders held on 19 March 2016. The issued and fully paid up share capital of the Bank comprises of 5,291,703,571 shares (31 December 2015: 5,039,717,687 shares and 31 March 2015: 5,039,717,687 shares) of 100 fils each.

During the period the Board of Directors approved an increase in share capital by way of 6.5% rights issue comprising 343,960,732 new shares at an issue price of 400 fils per share, which includes a share premium of 300 fils per share. The capital increase will take place after obtaining the necessary regulatory approvals.

b) Treasury shares

	31 March 2016	Audited 31 December 2015	31 March 2015
Number of treasury shares	96,208,243	91,626,899	91,628,448
Treasury shares as a percentage of total shares in issue	1.8%	1.8%	1.8%
Cost of treasury shares (KD thousand)	77,799	77,799	77,800
Market value of treasury shares (KD thousand)	64,460	73,302	73,303
Weighted average market value per treasury share (fils)	722	845	895

c) Dividend and bonus shares

The Annual General Assembly meeting of the shareholders held on 19 March 2016 approved 5% bonus shares (2014: 5%) and a cash dividend of 30 fils per share (2014: 30 fils per share) for the year ended 31 December 2015. The cash dividend was paid subsequently and the bonus shares increased the number of issued and fully paid up shares by 251,985,884 (2014: 239,986,556) and share capital by KD 25,198 thousand (2014: KD 23,999 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

31 March 2016 (Unaudited)

7 Shareholders' equity (continued)

d) Other reserves

							KD 000's
	<i>General reserve</i>	<i>Retained earnings</i>	<i>Foreign currency translation reserve</i>	<i>Cumulative changes in fair values</i>	<i>Share based payment reserve</i>	<i>Proposed cash dividend</i>	<i>Total other reserves</i>
At 1 January 2015	117,058	1,017,780	(61,497)	43,875	14,833	141,340	1,273,389
Profit for the period	-	96,518	-	-	-	-	96,518
Other comprehensive (loss) income	-	-	(12,220)	7,237	-	-	(4,983)
Total comprehensive income (loss)	-	96,518	(12,220)	7,237	-	-	91,535
Dividends paid	-	-	-	-	-	(141,374)	(141,374)
Dividends on treasury shares sold	-	(34)	-	-	-	34	-
Share based payment	-	-	-	-	382	-	382
Change in effective holding in a subsidiary	-	(20)	-	-	-	-	(20)
At 31 March 2015	<u>117,058</u>	<u>1,114,244</u>	<u>(73,717)</u>	<u>51,112</u>	<u>15,215</u>	<u>-</u>	<u>1,223,912</u>
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period	-	78,935	-	-	-	-	78,935
Other comprehensive loss	-	-	(30,672)	(6,225)	-	-	(36,897)
Total comprehensive income (loss)	-	78,935	(30,672)	(6,225)	-	-	42,038
Dividends paid	-	-	-	-	-	(148,443)	(148,443)
Transfer to cash settled share based compensation (Note 13)	-	-	-	-	(2,418)	-	(2,418)
Share based payment in a subsidiary	-	-	-	-	89	-	89
Change in effective holding in a subsidiary	-	(25)	-	-	-	-	(25)
At 31 March 2016	<u>117,058</u>	<u>1,186,131</u>	<u>(110,421)</u>	<u>23,247</u>	<u>13,974</u>	<u>-</u>	<u>1,229,989</u>

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

8 Segmental analysis

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

Consumer and Private Banking

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

Corporate Banking

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

Investment Banking and Asset Management

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

Islamic Banking

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

Group Centre

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

International

International includes all branches, subsidiaries and associates outside Kuwait.

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

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

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

8 Segmental analysis (continued)

	31 March 2015						
	Consumer and Private Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Islamic Banking KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
<i>Three months</i>							
Net operating income	55,223	39,057	5,270	22,063	30,566	42,354	194,533
Profit for the period	34,101	30,925	2,330	7,359	6,599	18,233	99,547
Total assets	3,607,450	5,005,305	62,969	2,772,659	2,589,770	9,284,003	23,322,156
Total liabilities	4,022,422	2,161,007	5,789	2,473,660	2,139,707	9,699,233	20,501,818

9 Commitments and contingent liabilities

	31 March 2016 KD 000's	Audited 31 December 2015 KD 000's	31 March 2015 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:			
Acceptances	100,292	118,367	133,128
Letters of credit	248,216	320,673	330,330
Guarantees	3,628,328	3,466,160	2,559,076
	3,976,836	3,905,200	3,022,534

Irrevocable commitments to extend credit amount to KD 1,014,674 thousand (31 December 2015: KD 755,668 thousand, 31 March 2015: KD 602,614 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

In the normal course of business, the Group has exposure to various indirect credit commitments which, though not reflected in the interim condensed consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

The Group has commitments in respect of capital expenditure amounting to KD 88,060 thousand (31 December 2015: KD 93,456 thousand, 31 March 2015: KD 117,611 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

10 Fair value of financial instruments

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

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

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

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

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

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

<i>31 March 2016</i>	<i>Level 1 KD 000's</i>	<i>Level 2 KD 000's</i>	<i>Level 3 KD 000's</i>	<i>Total KD 000's</i>
Debt securities	1,572,936	854,314	20,321	2,447,571
Equities and other investments	126,074	64,139	78,916	269,129
	<u>1,699,010</u>	<u>918,453</u>	<u>99,237</u>	<u>2,716,700</u>
Derivative financial instruments (Note 11)	-	(50,121)	-	(50,121)
 <i>31 December 2015</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	1,537,093	813,163	31,686	2,381,942
Equities and other investments	129,797	70,223	79,904	279,924
	<u>1,666,890</u>	<u>883,386</u>	<u>111,590</u>	<u>2,661,866</u>
Derivative financial instruments (Note 11)	-	(28,944)	-	(28,944)
 <i>31 March 2015</i>	 <i>Level 1 KD 000's</i>	 <i>Level 2 KD 000's</i>	 <i>Level 3 KD 000's</i>	 <i>Total KD 000's</i>
Debt securities	1,433,010	911,349	34,482	2,378,841
Equities and other investments	130,085	65,480	88,680	284,245
	<u>1,563,095</u>	<u>976,829</u>	<u>123,162</u>	<u>2,663,086</u>
Derivative financial instruments (Note 11)	-	(23,776)	-	(23,776)

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

10 Fair value of financial instruments (continued)

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

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

	<i>At 1 January 2015 KD 000's</i>	<i>Change in fair value KD 000's</i>	<i>Additions/ Transfers KD 000's</i>	<i>Sale/ redemption KD 000's</i>	<i>Exchange rate movements KD 000's</i>	<i>At 31 March 2015 KD 000's</i>	<i>Net gains in the interim condensed consolidated statement of income KD 000's</i>
Debt securities	39,089	-	-	(4,494)	(113)	34,482	445
Equities and other investments	82,564	(1,332)	7,612	(1,459)	1,295	88,680	1,255
	121,653	(1,332)	7,612	(5,953)	1,182	123,162	1,700

11 Derivative financial instruments

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

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

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

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2016 (Unaudited)

11 Derivative financial instruments (continued)

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

Interest rate swaps

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

Forward foreign exchange

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

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

	31 March 2016			Audited 31 December 2015			31 March 2015		
	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's	Positive fair value KD 000's	Negative fair value KD 000's	Notional KD 000's
Interest rate swaps (held as fair value hedges)	2,743	47,901	963,165	6,361	33,597	900,027	6,984	29,737	706,576
Interest rate swaps (others)	1,611	1,550	95,559	758	689	101,718	-	-	-
Forward foreign exchange contracts	7,833	12,857	1,739,782	9,625	11,402	1,742,618	16,021	17,044	1,808,306
	12,187	62,308	2,798,506	16,744	45,688	2,744,363	23,005	46,781	2,514,882

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2016 is negative KD 45,158 thousand (31 December 2015: negative KD 27,236 thousand, 31 March 2015: negative KD 22,753 thousand). Gain on the hedged fixed income financial assets amounted to KD 40,056 thousand (31 December 2015: KD 29,664 thousand, 31 March 2015: KD 35,875 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION

31 March 2016 (Unaudited)

12 Related party transactions

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

Details of the interests of related parties are as follows:

	Number of Board Members or Executive Officers			Number of related parties			31 March 2016	31 December 2015 Audited KD 000's	31 March 2015 KD 000's
	31 March 2016	31 December 2015	31 March 2015	31 March 2016	31 December 2015	31 March 2015			
Board Members									
Loans (secured)	4	4	4	10	11	10	249,237	259,355	206,350
Contingent liabilities	1	1	1	12	12	12	19,040	18,889	25,627
Credit cards	7	6	5	2	3	5	30	18	51
Deposits	8	9	9	65	67	63	35,915	30,073	41,674
Collateral against credit facilities	4	4	4	14	14	12	321,447	337,443	291,562
Interest and fee income							2,217	7,629	1,934
Interest expense							17	66	18
Purchase of equipment and other expenses							1	27	3
Sale of property acquired on settlement of debts							-	8,500	-
Executive Officers									
Loans	4	4	4	2	2	1	2,057	2,609	241
Contingent liabilities	5	5	5	-	-	-	2	2	2
Credit cards	12	12	12	2	1	-	49	56	32
Deposits	12	12	11	25	29	26	3,636	3,234	3,264
Interest and fee income							25	85	18
Interest expense							-	2	1

31 March 2016 (Unaudited)

12 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

	Three months ended 31 March	
	2016	2015
	KD 000's	KD 000's
Salaries and other short term benefits	1,687	1,460
Post-employment benefits	75	162
Share based compensation	113	101
	<u>1,875</u>	<u>1,723</u>

13 Share based payment

During the period the Bank modified the settlement terms of its share based compensation plan, from equity settlement to cash settlement. As per the modified plan, the settlement is based on the market value of the Bank's equity shares on vesting date. Accordingly, the Bank determined the fair value of the cash settled plan on the modification date and reclassified an amount of KD 2,418 thousand from share based payment reserve to other liabilities.