

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

30 September 2013 (Unaudited)

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|--|-------|------------------------------------|------------------|-----------------------------------|------------------|
| | | 2013 KD 000's | 2012 KD 000's | 2013 KD 000's | 2012 KD 000's |
| Interest income | | 122,777 | 122,985 | 364,484 | 375,048 |
| Interest expense | | 25,961 | 30,169 | 77,696 | 92,646 |
| Net interest income | | 96,816 | 92,816 | 286,788 | 282,402 |
| Murabaha and other Islamic financing income | | 19,220 | 11,755 | 54,422 | 11,755 |
| Distribution to depositors and Murabaha costs | | 2,527 | 2,011 | 7,325 | 2,011 |
| Net income from Islamic financing | | 16,693 | 9,744 | 47,097 | 9,744 |
| Net interest income and net income from Islamic financing | | 113,509 | 102,560 | 333,885 | 292,146 |
| Net fees and commissions | | 29,053 | 25,029 | 83,676 | 76,317 |
| Investment income | 3 | 1,488 | 82,969 | 16,172 | 86,797 |
| Net gains from dealing in foreign currencies | | 6,774 | 6,552 | 20,081 | 18,105 |
| Share of results of associates | | 3,398 | 3,303 | 11,451 | 10,543 |
| Other operating income | | 431 | 501 | 1,828 | 1,074 |
| Non-interest income | | 41,144 | 118,354 | 133,208 | 192,836 |
| Net operating income | | 154,653 | 220,914 | 467,093 | 484,982 |
| Staff expenses | | 27,969 | 28,250 | 87,650 | 74,835 |
| Other administrative expenses | | 18,197 | 18,852 | 53,621 | 46,059 |
| Depreciation of premises and equipment | | 3,650 | 3,512 | 10,984 | 9,932 |
| Amortisation of intangible assets | | 1,277 | 1,017 | 4,553 | 3,043 |
| Operating expenses | | 51,093 | 51,631 | 156,808 | 133,869 |
| Operating profit before provision for credit losses and impairment losses | | 103,560 | 169,283 | 310,285 | 351,113 |
| Provision charge for credit losses – specific | | 19,174 | 33,001 | 31,811 | 48,565 |
| Provision charge for credit losses – general | | 6,579 | 20,998 | 51,645 | 48,298 |
| Impairment losses for investment securities | | 352 | 2,522 | 1,208 | 10,621 |
| Operating profit before taxation | | 77,455 | 112,762 | 225,621 | 243,629 |
| Taxation | 4 | 5,447 | 3,370 | 15,085 | 12,922 |
| Profit for the period | | 72,008 | 109,392 | 210,536 | 230,707 |
| Attributable to: | | | | | |
| Shareholders of the Bank | | 70,053 | 108,110 | 198,587 | 228,920 |
| Non-controlling interests | | 1,955 | 1,282 | 11,949 | 1,787 |
| | | 72,008 | 109,392 | 210,536 | 230,707 |
| Basic and diluted earnings per share attributable to shareholders of the Bank | 5 | 16 fils | 24 fils | 44 fils | 51 fils |

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

30 September 2013 (Unaudited)

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|------------------|-----------------------------------|------------------|
| | 2013 KD 000's | 2012 KD 000's | 2013 KD 000's | 2012 KD 000's |
| Profit for the period | 72,008 | 109,392 | 210,536 | 230,707 |
| Other comprehensive income: | | | | |
| Change in fair value of investments available for sale | 11,691 | 4,937 | 4,643 | 7,327 |
| Net gains on investments available for sale transferred to consolidated statement of income | (1,219) | (795) | (11,666) | (2,869) |
| Impairment losses on investments available for sale transferred to consolidated statement of income | 352 | 2,522 | 1,208 | 10,621 |
| Share of other comprehensive income of associates | (835) | 935 | 3,267 | 898 |
| Exchange differences on translation of foreign operations | (8,713) | 1,037 | (31,488) | 3,925 |
| Other comprehensive income (loss) for the period included in equity | 1,276 | 8,636 | (34,036) | 19,902 |
| Total comprehensive income for the period | 73,284 | 118,028 | 176,500 | 250,609 |
| Attributable to: | | | | |
| Shareholders of the Bank | 74,293 | 116,466 | 167,324 | 248,582 |
| Non-controlling interests | (1,009) | 1,562 | 9,176 | 2,027 |
| | 73,284 | 118,028 | 176,500 | 250,609 |

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2013 (Unaudited)

| | | (Restated) Audited | (Restated) |
|--|----------------------|-----------------------|----------------------|
| | 30 September 2013 | 31 December 2012 | 30 September 2012 |
| | Notes | KD 000's | KD 000's |
| Assets | | | |
| Cash and short term funds | | 2,962,870 | 1,610,765 |
| Central Bank of Kuwait bonds | | 482,441 | 614,152 |
| Kuwait Government treasury bonds | | 308,845 | 356,211 |
| Deposits with banks | | 1,108,961 | 1,203,418 |
| Loans, advances and Islamic financing to customers | | 10,509,378 | 9,860,620 |
| Investment securities | | 2,290,867 | 1,577,149 |
| Investment in associates | | 207,934 | 213,175 |
| Land, premises and equipment | | 189,902 | 191,485 |
| Goodwill and other intangible assets | 6 | 703,117 | 722,933 |
| Other assets | | 191,237 | 142,563 |
| Total assets | | 18,955,552 | 16,492,471 |
| Liabilities | | | |
| Due to banks and other financial institutions | | 5,701,547 | 4,154,983 |
| Customer deposits | | 10,026,550 | 9,507,754 |
| Certificates of deposit issued | | 310,458 | - |
| Other liabilities | | 254,313 | 213,739 |
| Total liabilities | | 16,292,868 | 13,876,476 |
| Equity | | | |
| Share capital | 7 | 457,117 | 435,349 |
| Proposed bonus shares | 7 | - | 21,768 |
| Statutory reserve | | 217,675 | 217,675 |
| Share premium account | | 699,840 | 699,840 |
| Treasury shares | 7 | (80,302) | (79,171) |
| Treasury shares reserve | | 16,224 | 17,957 |
| General reserve | | 117,058 | 117,058 |
| Retained earnings | | 1,063,026 | 864,498 |
| Foreign currency translation reserve | | (64,428) | (35,522) |
| Cumulative changes in fair values | | 24,204 | 26,561 |
| Share based payment reserve | | 13,196 | 12,313 |
| Total share capital and reserves | | 2,463,610 | 2,298,326 |
| Proposed cash dividend | 7 | - | 128,189 |
| Equity attributable to shareholders of the Bank | | 2,463,610 | 2,426,515 |
| Non-controlling interests | | 199,074 | 189,480 |
| Total equity | | 2,662,684 | 2,615,995 |
| Total liabilities and equity | | 18,955,552 | 16,492,471 |

Mohammed Abdul Rahman Al-Bahar
Chairman

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

30 September 2013 (Unaudited)

| | | Nine months ended 30 September | |
|--|-------|-----------------------------------|------------------|
| | | 2013 | 2012 |
| | Notes | KD 000's | KD 000's |
| Operating activities | | | |
| Profit for the period | | 210,536 | 230,707 |
| Adjustments for: | | | |
| Investment income | | (16,172) | (86,797) |
| Share of results of associates | | (11,451) | (10,543) |
| Depreciation of premises and equipment | | 10,984 | 9,932 |
| Amortisation of intangible assets | | 4,553 | 3,043 |
| Provision charge for credit losses | | 83,456 | 96,863 |
| Impairment losses for investment securities | | 1,208 | 10,621 |
| Share based payment reserve | | 993 | 1,457 |
| Taxation | 4 | 15,085 | 12,922 |
| Operating profit before changes in operating assets and liabilities | | 299,192 | 268,205 |
| Changes in operating assets and liabilities: | | | |
| Central Bank of Kuwait bonds | | 131,711 | (109,404) |
| Kuwait Government treasury bonds | | 47,366 | 9,514 |
| Deposits with banks | | 94,457 | (61,248) |
| Loans, advances and Islamic financing to customers | | (732,187) | (362,058) |
| Other assets | | (48,674) | 14,420 |
| Due to banks and other financial institutions | | 1,546,564 | 139,922 |
| Customer deposits | | 518,796 | 887,929 |
| Certificates of deposit issued | | 310,458 | - |
| Other liabilities | | 65,631 | 39,019 |
| Tax paid | | (14,686) | (16,141) |
| Net cash from operating activities | | 2,218,628 | 810,158 |
| Investing activities | | | |
| Purchase of investment securities | | (1,230,359) | (1,164,249) |
| Proceeds from sale/redemption of investment securities | | 523,719 | 1,109,621 |
| Dividend income | | 2,070 | 2,026 |
| Acquisition of subsidiary net of cash acquired | | - | 49,331 |
| Acquisition of non-controlling interests | | - | (733) |
| Dividend from associates | | 10,601 | 10,184 |
| Additional investment in associate | | (553) | - |
| Proceeds from sale of land, premises and equipment | | 472 | 593 |
| Purchase of land, premises and equipment | | (9,873) | (12,407) |
| Net cash used in investing activities | | (703,923) | (5,634) |
| Financing activities | | | |
| Dividends paid | 7 | (128,248) | (157,181) |
| Purchase of treasury shares | | (3,061) | (54,773) |
| Proceeds from sale of treasury shares | | 197 | 6,569 |
| Net cash used in financing activities | | (131,112) | (205,385) |
| Increase in cash and short term funds | | 1,383,593 | 599,139 |
| Exchange difference on translation of foreign operations | | (31,488) | 3,925 |
| Cash and short term funds at 1 January | | 1,610,765 | 1,271,252 |
| Cash and short term funds at 30 September | | 2,962,870 | 1,874,316 |

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

National Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 September 2013 (Unaudited)

KD 000's

| | Equity attributable to shareholders of the Bank | | | | | | | | | | | | Total | Non-controlling interests | Total |
|---|---|-----------------------|-------------------|-----------------------|-----------------|-------------------------|-----------------|-------------------|--------------------------------------|-----------------------------------|-----------------------------|------------------------|------------------|---------------------------|------------------|
| | Share capital | Proposed bonus shares | Statutory reserve | Share premium account | Treasury shares | Treasury shares reserve | General reserve | Retained earnings | Foreign currency translation reserve | Cumulative changes in fair values | Share based payment reserve | Proposed cash dividend | | | |
| At 1 January 2013 (As restated - Note 6) | 435,349 | 21,768 | 217,675 | 699,840 | (79,171) | 17,957 | 117,058 | 864,498 | (35,522) | 26,561 | 12,313 | 128,189 | 2,426,515 | 189,480 | 2,615,995 |
| Profit for the period | - | - | - | - | - | - | - | 198,587 | - | - | - | - | 198,587 | 11,949 | 210,536 |
| Other comprehensive loss | - | - | - | - | - | - | - | - | (28,906) | (2,357) | - | - | (31,263) | (2,773) | (34,036) |
| Total comprehensive income (loss) | - | - | - | - | - | - | - | 198,587 | (28,906) | (2,357) | - | - | 167,324 | 9,176 | 176,500 |
| Issue of bonus shares (Note 7) | 21,768 | (21,768) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends on treasury shares sold | - | - | - | - | - | - | - | (59) | - | - | - | 59 | - | - | - |
| Dividends paid (Note 7) | - | - | - | - | - | - | - | - | - | - | - | (128,248) | (128,248) | - | (128,248) |
| Sale of treasury shares | - | - | - | - | 1,930 | (1,733) | - | - | - | - | - | - | 197 | - | 197 |
| Purchase of treasury shares | - | - | - | - | (3,061) | - | - | - | - | - | - | - | (3,061) | - | (3,061) |
| Share based payment | - | - | - | - | - | - | - | - | - | - | 883 | - | 883 | 110 | 993 |
| Dividend paid by subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | (162) | (162) |
| Capital increase in subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | 470 | 470 |
| At 30 September 2013 | 457,117 | - | 217,675 | 699,840 | (80,302) | 16,224 | 117,058 | 1,063,026 | (64,428) | 24,204 | 13,196 | - | 2,463,610 | 199,074 | 2,662,684 |
| At 1 January 2012 | 395,772 | 39,577 | 197,886 | 699,840 | (33,415) | 20,403 | 117,058 | 729,601 | (33,032) | 23,357 | 10,469 | 157,092 | 2,324,608 | 11,965 | 2,336,573 |
| Profit for the period | - | - | - | - | - | - | - | 228,920 | - | - | - | - | 228,920 | 1,787 | 230,707 |
| Other comprehensive income | - | - | - | - | - | - | - | - | 4,678 | 14,984 | - | - | 19,662 | 240 | 19,902 |
| Total comprehensive income | - | - | - | - | - | - | - | 228,920 | 4,678 | 14,984 | - | - | 248,582 | 2,027 | 250,609 |
| Issue of bonus shares (Note 7) | 39,577 | (39,577) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividends on treasury shares sold | - | - | - | - | - | - | - | (89) | - | - | - | 89 | - | - | - |
| Dividends paid (Note 7) | - | - | - | - | - | - | - | - | - | - | - | (157,181) | (157,181) | - | (157,181) |
| Sale of treasury shares | - | - | - | - | 8,998 | (2,429) | - | - | - | - | - | - | 6,569 | - | 6,569 |
| Purchase of treasury shares | - | - | - | - | (54,773) | - | - | - | - | - | - | - | (54,773) | - | (54,773) |
| Share based payment | - | - | - | - | - | - | - | - | - | - | 1,430 | - | 1,430 | 27 | 1,457 |
| Acquisition of non-controlling Interests | - | - | - | - | - | - | - | (393) | - | - | - | - | (393) | (340) | (733) |
| Acquisition of a subsidiary (As restated - Note 6) | - | - | - | - | - | - | - | - | - | - | - | - | - | 173,708 | 173,708 |
| Dividend paid by subsidiary | - | - | - | - | - | - | - | - | - | - | - | - | - | (106) | (106) |
| At 30 September 2012 | 435,349 | - | 197,886 | 699,840 | (79,190) | 17,974 | 117,058 | 958,039 | (28,354) | 38,341 | 11,899 | - | 2,368,842 | 187,281 | 2,556,123 |

The attached notes 1 to 14 form part of these interim condensed consolidated financial information.

30 September 2013 (Unaudited)

1 Incorporation and registration

The interim condensed consolidated financial information of National Bank of Kuwait S.A.K. (the “Bank”) and its subsidiaries (collectively the “Group”) for the nine months period ended 30 September 2013 were authorised for issue in accordance with a resolution of the directors on 8 October 2013. 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 2012 except as noted below.

The annual consolidated financial statements for the year ended 31 December 2012 were prepared in accordance with the regulations of the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait (CBK). 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 2012. Further, results for interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2013.

The following new accounting policy relating to certificates of deposit issued has been included in the preparation of this interim condensed consolidated financial information.

Certificates of deposit issued

Certificates of deposit issued are stated at amortised cost using effective interest method.

The Group has adopted the following standards which are effective from 1 January 2013:

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. The Group will provide additional disclosures in the annual consolidated financial statements.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

2 Accounting policies (continued)

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.

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.

3 Investment income

The Bank obtained control of Boubyan Bank K.S.C. (previously classified as ‘investment in associate’) during 2012 and re-measured its previously held equity interest at the acquisition date fair value. The resulting gain amounting to KD 81,514 thousand is included under ‘Investment Income’ in the interim condensed consolidated statement of income for the period ended 30 September 2012.

4 Taxation

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|------------------|-----------------------------------|------------------|
| | 2013 KD 000's | 2012 KD 000's | 2013 KD 000's | 2012 KD 000's |
| Contribution to Kuwait Foundation for the Advancement of Sciences | 667 | 216 | 1,753 | 1,141 |
| National labour support tax | 1,361 | 278 | 3,569 | 2,443 |
| Zakat | 538 | 98 | 1,442 | 976 |
| Taxation on overseas branches and subsidiaries | 2,881 | 2,778 | 8,321 | 8,362 |
| | <u>5,447</u> | <u>3,370</u> | <u>15,085</u> | <u>12,922</u> |

5 Earnings per share

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

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|------------------------------------|------------------|-----------------------------------|------------------|
| | 2013 KD 000's | 2012 KD 000's | 2013 KD 000's | 2012 KD 000's |
| Profit attributable to shareholders of the Bank | <u>70,053</u> | <u>108,110</u> | <u>198,587</u> | <u>228,920</u> |
| Weighted average number of shares outstanding during the period net of treasury shares (thousands) | <u>4,485,798</u> | <u>4,514,214</u> | <u>4,487,535</u> | <u>4,530,266</u> |
| Basic and diluted earnings per share | <u>16 fils</u> | <u>24 fils</u> | <u>44 fils</u> | <u>51 fils</u> |

Earnings per share calculations for the period ended 30 September 2012 have been adjusted to take account of the bonus shares issued in 2013.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

6 Business combination

The Bank obtained control of Boubyan Bank K.S.C. 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 interim condensed consolidated statement of financial position presented for 31 December 2012 and 30 September 2012 have been restated to reflect the above fair value adjustments. The impact of restatement on the interim condensed consolidated statement of income is not material, and therefore the same has been recognised in the current period.

7 Shareholders' equity

a) The authorised, issued and fully paid up share capital of the Bank comprises of 4,571,172,506 shares (31 December 2012: 4,353,497,625 shares and 30 September 2012: 4,353,497,625 shares) of 100 fils each.

b) Treasury shares

| | 30 September 2013 | Audited 31 December 2012 | 30 September 2012 |
|--|------------------------------|--------------------------------|----------------------|
| Number of treasury shares | 85,782,085 | 80,527,958 | 80,547,428 |
| Treasury shares as a percentage of total shares in issue | 1.9% | 1.8% | 1.9% |
| Cost of treasury shares (KD thousand) | 80,302 | 79,171 | 79,190 |
| Market value of treasury shares (KD thousand) | 78,920 | 77,307 | 79,742 |

c) Dividend and bonus shares

Annual General Assembly meeting of the shareholders held on 9 March 2013 approved 5% bonus shares (2011: 10%) and a cash dividend of 30 fils per share (2011: 40 fils per share) for the year ended 31 December 2012. The cash dividend was paid subsequently and the bonus shares increased the number of shares by 217,674,881 (2011: 395,772,511) and share capital by KD 21,768 thousand (2011: KD 39,577 thousand).

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.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

8 Segmental analysis (continued)

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 results of activities of the Group's Islamic Banking subsidiary, Boubyan Bank K.S.C.

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 and total assets information in respect of the Group's business segments:

| | 30 September 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 Center KD 000's | International KD 000's | Total KD 000's |
| Net operating income | 148,295 | 124,383 | 18,758 | 50,187 | 24,396 | 101,074 | 467,093 |
| Profit for the period | 84,231 | 52,542 | 10,571 | 10,225 | 2,905 | 50,062 | 210,536 |
| Total assets | 3,298,905 | 4,346,272 | 59,015 | 2,098,053 | 2,043,798 | 7,109,509 | 18,955,552 |
| | 30 September 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 Center KD 000's | International KD 000's | Total KD 000's |
| Net operating income | 144,931 | 126,561 | 18,746 | 13,354 | 85,707 | 95,683 | 484,982 |
| Profit for the period | 83,754 | 78,328 | 9,984 | 5,154 | 3,652 | 49,835 | 230,707 |
| Total assets (restated) | 3,038,279 | 4,159,878 | 56,124 | 1,777,361 | 1,987,467 | 5,387,546 | 16,406,655 |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

9 Commitments and contingent liabilities

| | 30 September 2013 KD 000's | Audited 31 December 2012 KD 000's | 30 September 2012 KD 000's |
|--|----------------------------------|--|----------------------------------|
| Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned: | | | |
| Acceptances | 56,622 | 85,689 | 61,448 |
| Letters of credit | 281,893 | 307,416 | 339,753 |
| Guarantees | 2,105,848 | 2,067,690 | 1,991,497 |
| | <u>2,444,363</u> | <u>2,460,795</u> | <u>2,392,698</u> |

Irrevocable commitments to extend credit amount to KD 453,620 thousand (31 December 2012: KD 318,110 thousand, 30 September 2012: KD 240,906 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.

10 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 1,145,381 thousand for debt securities and KD 187,841 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 702,026 thousand for debt securities and KD 81,606 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 45,090 thousand for debt securities and KD 86,852 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 period.

| | <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 30 September 2013 KD 000's</i> | <i>Net gains in the interim condensed consolidated statement of income KD 000's</i> |
|--------------------------------|---|--|-------------------------------|--|---|--|---|
| Debt securities | 45,530 | - | - | (480) | 40 | 45,090 | 1,451 |
| Equities and other investments | 95,502 | 476 | 3,556 | (12,927) | 245 | 86,852 | 6,150 |
| | <u>141,032</u> | <u>476</u> | <u>3,556</u> | <u>(13,407)</u> | <u>285</u> | <u>131,942</u> | <u>7,601</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 8,953 thousand and KD 17,510 thousand respectively.

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

10 Fair value of financial instruments (continued)

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.

11 Interest rate swaps and forward foreign exchange contracts

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

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. 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 are covered by entering into similar transactions with counter parties or by other risk mitigating transactions.

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

| | 30 September 2013 | | | Audited 31 December 2012 | | | 30 September 2012 | | |
|---|---------------------------------|---------------------------------|----------------------|---------------------------------|---------------------------------|----------------------|---------------------------------|---------------------------------|----------------------|
| | Positive fair value KD 000's | Negative fair value KD 000's | Notional KD 000's | Positive fair value KD 000's | Negative fair value KD 000's | Notional KD 000's | Positive fair value KD 000's | Negative fair value KD 000's | Notional KD 000's |
| Interest rate swaps (held as fair value hedges) | 5,326 | 12,057 | 350,039 | 21 | 14,348 | 136,480 | 46 | 17,787 | 172,039 |
| Forward foreign exchange contracts | 3,627 | 5,453 | 1,130,285 | 12,508 | 3,082 | 895,735 | 3,641 | 4,534 | 895,062 |
| | 8,953 | 17,510 | 1,480,324 | 12,529 | 17,430 | 1,032,215 | 3,687 | 22,321 | 1,067,101 |

The net fair value of interest rate swaps held as fair value hedges as at 30 September 2013 is negative KD 6,731 thousand (31 December 2012: negative KD 14,327 thousand, 30 September 2012: negative KD 17,741 thousand). Unrealised gain on the hedged fixed income financial assets amounted to KD 7,206 thousand (31 December 2012: KD 15,131 thousand, 30 September 2012: KD 20,211 thousand).

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

12 Related party transactions

Certain related parties (directors and executive officers of the Bank, companies which they control and entities associated with the Group) were customers of the Bank and its subsidiaries in the ordinary course of business. Such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. In accordance with Central Bank of Kuwait regulations regarding lending to Board Members and their related parties, such lending is secured by tangible collateral.

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

| | Number of Board Members or Executive Officers | | | Number of related parties | | | 30 September 2013 | 31 December 2012 | 30 September 2012 |
|--|--|---------------------|----------------------|---------------------------|---------------------|----------------------|----------------------|---------------------|----------------------|
| | 30 September 2013 | 31 December 2012 | 30 September 2012 | 30 September 2013 | 31 December 2012 | 30 September 2012 | | | |
| | | | | | | | KD 000's | Audited KD 000's | KD 000's |
| Board Members and related parties | | | | | | | | | |
| Loans (secured) | 4 | 4 | 4 | 12 | 12 | 12 | 206,747 | 204,469 | 200,349 |
| Contingent liabilities | 1 | 1 | 1 | 12 | 12 | 12 | 17,182 | 13,446 | 14,722 |
| Credit cards | 7 | 8 | 8 | 2 | 2 | 2 | 35 | 28 | 100 |
| Deposits | 9 | 9 | 9 | 12 | 14 | 12 | 19,615 | 22,726 | 29,167 |
| Collateral against credit facilities | 4 | 4 | 4 | 15 | 15 | 15 | 368,440 | 362,293 | 369,124 |
| Interest and fee income | | | | | | | 5,020 | 7,607 | 6,151 |
| Interest expense | | | | | | | 50 | 360 | 348 |
| Executive Officers | | | | | | | | | |
| Loans | 12 | 9 | 8 | - | - | - | 607 | 460 | 666 |
| Contingent liabilities | 3 | 2 | 1 | - | - | - | 7 | 6 | 6 |
| Credit cards | 11 | 5 | 5 | - | - | - | 16 | 6 | 45 |
| Deposits | 23 | 16 | 16 | - | - | - | 1,201 | 1,405 | 1,709 |
| Interest and fee income | | | | | | | 5 | 2 | 11 |
| Interest expense | | | | | | | 3 | 17 | 7 |
| Associates | | | | | | | | | |
| Placements | | | | | | | 176,964 | 195,268 | 98,778 |
| Acceptances | | | | | | | 1,592 | 544 | 97 |

National Bank of Kuwait Group

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2013 (Unaudited)

13 Key management compensation

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

| | Three months ended 30 September | | Nine months ended 30 September | |
|--|---------------------------------|------------------|--------------------------------|------------------|
| | 2013 KD 000's | 2012 KD 000's | 2013 KD 000's | 2012 KD 000's |
| Salaries and other short term benefits | 3,104 | 3,077 | 9,504 | 8,925 |
| Post-employment benefits | 307 | 463 | 1,012 | 971 |
| Share based compensation | 86 | 261 | 451 | 825 |
| | <u>3,497</u> | <u>3,801</u> | <u>10,967</u> | <u>10,721</u> |

14 Family support fund

During the period, CBK issued its Circular No. 2/RB, RB, ARS/306/2013 to all local banks and investment companies regarding formation of Family Support Fund (the "Fund") under Law No. 106/2013. The Fund shall 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 is currently in the process of identifying such loans and submitting its report to CBK.

NATIONAL BANK OF KUWAIT GROUP

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION**

30 SEPTEMBER 2013 (UNAUDITED)