### NATIONAL BANK OF KUWAIT GROUP

INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 MARCH 2017 (UNAUDITED)



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### REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF NATIONAL BANK OF KUWAIT S.A.K.P.

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of National Bank of Kuwait S.A.K.P. (the "Bank") and its subsidiaries (collectively the "Group") as at 31 March 2017, and the related interim condensed consolidated statement of income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the three months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of presentation set out in Note 2.

### Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016 and its executive regulation, or the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the three months period ended 31 March 2017 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI LICENCE NO. 68 A ERNST & YOUNG AL AIBAN, AL OSAIMI & PARTNERS BADER A. AL-WAZZAN LICENCE NO. 62 A DELOITTE & TOUCHE AL-WAZZAN & CO.

10 April 2017 Kuwait

### National Bank of Kuwait Group INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

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

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 March 2017 (Unaudited)

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

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2017 (Unaudited)

		31 March 2017	Audited 31 December 2016	31 March 2016
	Notes	KD 000's	KD 000's	KD 000's
Assets Cash and short term funds		2,705,067	2,686,963	4,310,505
Central Bank of Kuwait bonds		738,955	748,889	680,675
Kuwait Government treasury bonds		766,890	493,101	390,479
Deposits with banks		2,321,857	2,407,915	1,785,077
Loans, advances and Islamic financing to customers		14,048,746	13,611,491	13,559,416
Investment securities		3,152,131	3,174,632	2,777,057
Investment in associates		72,233	73,644	86,011
Land, premises and equipment		260,698	255,086	233,414
Goodwill and other intangible assets		585,940	581,840	658,148
Other assets		161,733	170,508	191,478
Total assets		24,814,250	24,204,069	24,672,260
Liabilities		7,432,480	7,347,803	8,266,805
Due to banks and other financial institutions		13,151,268	12,608,092	12,263,530
Customer deposits		450,335	415,989	665,277
Certificates of deposit issued Subordinated Tier 2 bonds		124,709	124,700	124,675
Other liabilities		308,897	302,753	269,932
Total liabilities		21,467,689	20,799,337	21,590,219
a star answer				
Equity	,	501 544	563,566	520 170
Share capital	6	591,744	28,178	529,170
Proposed bonus shares	6	281,783	281,783	251,986
Statutory reserve		803,028	803,028	699,840
Share premium account	6	(77,799)	(77,799)	(77,799)
Treasury shares Treasury shares reserve	Ü	13,994	13,994	13,994
Other reserves	6	1,214,200	1,271,813	1,229,989
The second control of the Book		2,826,950	2,884,563	2,647,180
Equity attributable to shareholders of the Bank			210,700	210,700
Perpetual Tier 1 Capital Securities		210,700 308,911	309,469	224,161
Non-controlling interests				
Total equity		3,346,561	3,404,732	3,082,041
Total liabilities and equity		24,814,250	24,204,069	24,672,260
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Ghassan Ahmed Saoud Al Khalid

Vice Chairman

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

31 March 2017 (Unaudited)

	Three mon	
Notes	2017 KD 000's	2016 KD 000's
Operating activities Profit for the period	89,718	82,704
Adjustments for: Net investment income	(5,133)	(1,467)
Depreciation of premises and equipment	4,007	4,049
Amortisation of intangible assets	792	1,198
Provision charge for credit losses and impairment losses 3	37,737	30,917
Share based payment reserve	93	153
Taxation 4	6,415	6,966
Operating profit before changes in operating assets and liabilities	133,629	124,520
Changes in operating assets and liabilities:		
Central Bank of Kuwait bonds	9,934	123,255
Kuwait Government treasury bonds	(273,789)	(10,427)
Deposits with banks	86,058	(358,398)
Loans, advances and Islamic financing to customers	(472,272)	(29,846)
Other assets	8,775	(17,988)
Due to banks and other financial institutions	84,677	960,338
Customer deposits	543,176	204,327
Certificates of deposit issued	34,346	10,020
Other liabilities	8,360	(4,858)
Tax paid	(5,362)	(6,479)
Net cash from operating activities	157,532	994,464
Investing activities	(40.4.003)	(473 044)
Purchase of investment securities	(404,083)	(473,044) 469,935
Proceeds from sale/redemption of investment securities	444,830	1,082
Dividend income	1,028	397
Dividend from associates	- 291	1,131
Proceeds from sale of land, premises and equipment	(9,910)	(12,093)
Purchase of land, premises and equipment	32,156	(12,592)
Net cash from (used in) investing activities		
Financing activities	(166 194)	(148,443)
Dividends paid 6	(166,184) (5,400)	(4,295)
Dividend paid by a subsidiary to non-controlling interests	(3,400)	
Net cash used in financing activities	(171,584)	(152,738)
Increase in cash and short term funds	18,104	829,134
Cash and short term funds at 1 January	2,686,963	3,481,371
Cash and short term funds at 31 March	2,705,067	4,310,505

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to shareholders of the Bank

KD 000's

31 March 2017 (Unaudited)

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

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

### 2 Accounting policies

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

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

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

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

### Provision charge for credit losses and impairment losses

716,0£	<u> </u>	
766'S 766'S 766'S	426,11 171,5 <u>5</u> 218,2	Provision charge for credit losses – specific Provision charge for credit losses – general Impairment losses
KD 000,2 5019 1964 31 March	KD 000,2 7014 Littee months en	±9

### noitaxaT 4

996'9	\$I <b>t</b> '9	
299 174,8	849°7	Contribution to Kuwait Foundation for the Advancement of Sciences  Advancement of Sciences  Overseas tax
826'I	1£1,2 829	Varional labour support tax Sakat
KD 000.2 5019 jeq 31 March	KD 000.2 3013 Lpree moutps euc	

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### Earnings per share

31 March 2017 (Unaudited)

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

slit 4 l	alīī ZI	Basic earnings per share
29 <del>1</del> ,009,2	678'918'5	Weighted average number of shares outstanding during the period net of treasury shares (thousands)
SE6,87	SSE,88	Profit attributable to shareholders of the Bank
KD 000,2 5016 KD Watch	Three months e	

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

### Shareholders' equity

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

### Treasury shares

Number of treasury shares  Treasury shares as a percentage of total shares in issue  Market value of treasury shares (KD thousand)  Weighted average market value per treasury share (fils)	186,810,101 697,1 67,1 189,810,101	\$55,802,80 667,77 %7,1 \$52,52 \$43	8.1 697,45 697,77 88.1 527
	31 March 2017	Audited 2016	31 March 2016

### (၁ Dividend and bonus shares

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

NFORMATION 31 March 2017 (Unaudited)

### Shareholders' equity (continued)

Other reserves			Foreign	Cumulative	Share based	Proposed	Total
	reserve	carnings	reserve	fair values	reserve	dividend	reserves
At 1 January 2017	117,058	1,163,193	(237,915)	49,121	14,172	166,184	1,271,813
Profit for the period Other comprehensive income	1 1	85,355	8,651	14,549	č t	ř. C	85,355 23,200
Total comprehensive income		85,355	8,651	14,549	ĵ.		108,555
Dividends paid Share based payment in a subsidiary Change in effective holding in a subsidiary		(38)	1 1 1	1.1.1	54	(166,184)	(166,184) 54 (38)
At 31 March 2017	117,058	1,248,510	(229,264)	63,670	14,226		1,214,200
At 1 January 2016	117,058	1,107,221	(79,749)	29,472	16,303	148,443	1,338,748
Profit for the period Other comprehensive loss	1 1	78,935	(30,672)	(6,225)	, ,	n .	78,935 (36,897)
Total comprehensive income (loss)	,	78,935	(30,672)	(6,225)	9	94	42,038
Dividends paid  Transfer to cash settled share based compensation  Share based payment in a subsidiary				1 15 1	(2,418) 89	(148,443)	(148,443) (2,418) 89
At 31 March 2016	117,058	1,186,131	(110,421)	23,247	13,974	1	1,229,989

31 March 2017 (Unaudited)

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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, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

Consumer and Private Banking
Consumer Banking provides a diversified range of products and services to individuals. The range includes
consumer Banking provides a deposite, 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 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 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

Total liabilities

Total assets

International includes all branches, subsidiaries and associates outside Kuwait.

7476,042

111,222,111

960,827,2

165'815'9

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:

11.'68	72'486	(22,864)	742,01	4,084	38,553	33,912	Profit (loss) for the
186,381	£04,443	785,2	30,271	9†8'9	879,74	IS9'09	Met operating income
							sųruom əərdī
Total	KD 000,2 International	Group Centre KD 000's	RD 000,2 Banking Islamic	Banking And Asset Management KD 000's	Corporate Banking KD 000's	Consumer Banking Banking KD 000's	

17,258

878'18

3,251,503

641,E76,E

31 March 2017

0£L'91L'1

\$18'076'7

9,331,120

954,705,8

689'497'17

24,814,250

### 31 March 2017 (Unaudited)

### Segmental analysis (continued)

					t liabilities	nad contingen	8 Commitments
612,092,12	+6E'9EE'01	1,934,292	2,939,749	664'\$	125,252,2	499'141'4	zəitilidail latoT
24,672,260	087,628,6	2,161,183	721,062,5	694,29	\$01,852,8	965,090,4	Total assets
\$2,704	23,365	(141,91)	011'6	3,080	£95,1£	727,45	Profit (loss) for the period
852,971	42,236	εοι'ε	560,83	978,8	996'7৮	424,82	Net operating income
							Three months
Total KD 000's	KD 000,2 International	Group Group Group	Islamic Ramking KD 000's	KD 000,2 sud Asset Banking Backing	Corporate Banking 2'000 CJ	Consumer and Private Banking KD 000's	
- West		***	March 2016	Iε			

9E8'9L6'E	<del>1</del> 99'ελ0'τ	SL8'9L0'7	
262,001 812,842 826,826,6	899,211 752,858,5	879,781 872,472 813,413,£	Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned: Acceptances Letters of credit Guarantees
KD 000,2 5010 31 March	Andited 2016 S1 December Mulited 2016	KD 000,2 7017 31 Мягсh	

brevocable commitments to extend credit amount to KD 705,861 thousand, 31 March 2016: KD 1,014,674 thousand). This includes commitments to extend credit which are irrevocable over the life of the facility or are revocable only in response to a material adverse change.

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

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

The Group has commitments in respect of capital expenditure amounting to KD 73,892 thousand (31 December 105,426 thousand, 31 March 2016; KD 88,060 thousand).

31 March 2017 (Unaudited) INFORMATION

### Fair value of financial instruments

Derivative financial instruments (Note 10)

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

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

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

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

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

	010'669'1	618,453	7£2,99	2,716,700
Debt securities  Equities and other investments	1,572,936 470,931	41£,428 41£,428	126,02 116,87	178,744,2 1129
31 March 2016	KD 00012 Tenel 1	KD 000,2 Tenel 7	KD 000,2 F6,61 3	Total KD 000's
Derivative financial instruments (Note 10)	•	7,633	•	7,633
	257,448,1	1,071,829	<i>L</i> †5'98	111, 500, 5
Debt securities  Equities and other investments	684,19 684,19	939,419	782°17	189,262
31 December 2016	KD 000,2 F6,6  1	KD 000,2 T <sup>GA6</sup> l 7	KD 00012 F6161 3	Total Total
Derivative financial instruments (Note 10)	-	(£97,8)	•	(£92,8)
· ·	179'810'7	8£9,020,1	6\$L'\$8	3,124,018
Debt securities  Equities and other investments	1,936,400	07£,2£6 85£,2£6	796,64 797,41	2,886,430 882,752
7102 Asim 18	KD 000's Level I	KD 000's	KD 000,2 Tenel 3	Total
at fair value:  The following table provides the fair value measurement his	erarchy of the	onsant s'quote	cial instrumer	its recorded

(121,02)

(171'05)

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

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31 March 2017 (Unaudited)

generated during the periods.

### 9 Fair value of financial instruments (continued)

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

1,135	ZEZ'66	(285)	(£16,913)	811,81	(273)	065,111	
858	916'84	(529)	(019)	967	(315)	t06°6L	Equities and other investments
LLT	126,02	(56)	(500,62)	779'71	74	989'18	Debt securities
Net gains  The paint  The paint of the paint	KD 000,8 701e Yusey 7431	КД 000.2 иольшвисг ЕхсраиВь	Salel Salel	Additions KD 000's	Change in Jair value KD 000's	KD 000% 7010 7aunan VI I	
1,380	65 <i>L</i> ,48	(691)	(067,1)	<b>*</b>	<u></u>	LtS'98	
ESI'I	L66'69	(991)	(064,1)	ppI	<u></u>	787,17	other investments
LZZ	14,762	(5)	-	-	-	\$9 <b>L</b> ԠI	Debt securities
Net Bains in the consolidated statement of interim statement of	KD 000,2 7011 Yarch 4131	KD 000,2 wossewsz rase Exchange	Sale/ redemption KD 000's	Additions KD 000's	Change in Jair value KD 000's	KD 000,2 7aunar) Yu ]	

### 10 Derivative financial instruments

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

Derivative financial instruments are carried at fair value in the consolidated statement of financial position. Positive fair value represents the cost of replacing all transactions with a fair value in the Group's favour had 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.

31 March 2017 (Unaudited)

### 10 Derivative financial instruments (continued)

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

Interest rate swaps 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 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:

91	March 20		oper 2016	ted 31 Decen		Lī	1 March 20	£	
Notional KD 000's	KD 000's fair value KD 000's	Positive fair value KD 000's	Notional KD 000's	Meganve fair value KD 000's	Positive fair value KD 000's	Notional	Negative fair value s'000 GY	KD 000.2 lair value Positive	
591'E96	106'47	547,5	6 <del>77</del> '9/£'I	<b>ΔΙΙ'0</b> ξ	766'\$7	1,421,589	78,660	75,684	Interest rate swaps (held as fair value hedges)
655,26	0\$ <b>\$</b> "I	119'[	84,811	₽0⊅'I	1,450	904,68	6££'I	136,1	(others)
1,739,782	12,857	558,7	2,094,223	11,029	142,71	89†'S6L'I	186,2	4,555	Forward foreign exchange contracts
905,897,2	806,26	12,187	£84,252,£	42,550	45,183	£94,00£,E	585,25	029'87	

The net fair value of interest rate swaps held as fair value hedges as at 31 March 2017 is negative KD 4,125 thousand, 31 March 2016: negative KD 45,158 thousand). Gain on the hedged fixed income financial assets amounted to KD 41,607 thousand (31 December 2016: KD 26,805 thousand, 31 March 2016: KD 46,056 thousand).

## JOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

NFORMATION

1 March 2017 (Unaudited)

### Related party transactions

arties is secured by tangible collateral in accordance with regulations of Central Bank of Kuwait. ollateral, 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 ertain 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 clated 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.

)ctails of the interests of related parties are as follows:

**Number of Board Members or** 

		Executive Officers		Z	mber of related p	arties				
	31 March 2017	31 December 2016	31 March 2016	31 March 2017	31 December 31 March 2016 2016	31 March 2016	31 March 2017	31 December 2016 Audited	31 March 2016	
loard Members						;		155 500	140 224	
onne (cornirad)	w	4	4	15	16	10	154,603	155,598	249,237	
oalls (secured)	، د		<u> </u>	13	13	12	19,327	20,981	19,040	
oningent naountes	<b>ታ</b> ነ ነ	Ż,	7	10	10	2	69	99	30	
Security Sec	on (	oc (	<b>&gt;</b> 0	69	67	65	42,312	32,090	35,915	
Seposies	ه در	4	4	ا ت	14	14	301,907	288,898	321,447	
Official against cream factions	,			ļ			1,397	7,586	2,217	
melest and recincolne							10	43	17	
nterest expense							Ja -	23	_	
rurchase of equipment and other expenses							e	ţ		
Executive Officers				ı	,	)		7 707	2 057	
Loans	4	ţ.	4	U	L	· N	2,597	201,2	2,00,1	
Contingent liabilities	4	٠,	; <sub>(</sub> ,	) 1	, (	، د	66	% 7	40	
Credit cards	11	12	12	ę.	3 ~	, k	300	3010	9ty t	
Deposits	13	13	12	<u>3</u>	33	22	3,004	2,710	J,01.0	
Interest and fee income							23	. 90	' !	
Interest expense							,	,		
THE COLUMN TO TH										

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL

INFORMATION
31 March 2017 (Unaudited)

### 11 Related party transactions (continued)

Details of compensation to key management personnel are as follows:

113	145
SL	78
788,1	1,854
KD 000.2	KD 000.2
7016	7102
ided 31 March	Three months ei

870,2

1,875

Salaries and other short term benefits Post-employment benefits Share based compensation