

The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

31 March 2012 (Unaudited)

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Commercial Bank of Kuwait S.A.K ("the Parent Bank") and its subsidiaries (together called "the Group") as of 31 March 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the three month period then ended. Management 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.

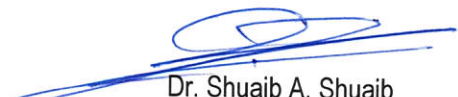
Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Bank, and we have not become aware of any material violations of the Commercial Companies' Law of 1960, as amended, or of the Articles of Association of the Parent Bank have occurred during the period ended 31 March 2012 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our review, we have not become aware of any material 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.



Jassim Ahmad Al-Fahad
License No. 53A
Deloitte & Touche
Al-Fahad Al-Wazzan & Co.



Dr. Shuaib A. Shuaib
License No 33A
RSM Albazie & Co.


INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2012 (Unaudited)

		<i>(Audited)</i>	
	Note	31 March 2012 KD 000's	31 December 2011 KD 000's
			31 March 2011 KD 000's
ASSETS			
Cash and short term funds	5	238,328	198,470
Treasury and Central Bank bonds		471,035	484,036
Due from banks and other financial institutions	6	463,082	405,989
Loans and advances	7	2,181,956	2,161,007
Investment securities	8	378,155	394,100
Investment in an associate		9,663	9,691
Premises and equipment		26,388	26,152
Goodwill and other intangible assets		18,222	18,226
Other assets		12,458	16,621
TOTAL ASSETS		3,799,287	3,714,292
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		855,524	886,520
Customer deposits		2,371,094	2,253,965
Other liabilities		52,878	42,418
TOTAL LIABILITIES		3,279,496	3,182,903
EQUITY			
Equity attributable to shareholders of the Parent Bank			
Share capital		127,202	127,202
Treasury shares		(75)	(75)
Reserves		277,272	289,206
Retained earnings		114,472	114,143
Non-controlling interests		920	913
TOTAL EQUITY		519,791	531,389
TOTAL LIABILITIES AND EQUITY		3,799,287	3,714,292

The interim condensed consolidated financial information has been approved for issue by the Board of Directors on 10th April 2012 and signed on their behalf by:

Ali Yousef Al Awadi
Chairman

Nuhad Saliba
Chief Executive Officer

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME**

Period ended 31 March 2012 (Unaudited)

	Note	Three months ended 31 March	
		2012 KD 000's	2011 KD 000's
Interest income	9	28,891	31,820
Interest expense		(8,652)	(11,370)
NET INTEREST INCOME		20,239	20,450
Fees and commissions		6,864	7,054
Fund management fees		188	212
Net gain from dealing in foreign currencies		730	1,138
Net gain from investment securities		137	305
Dividend income		1,383	1,989
Share of result from an associate		-	165
Other operating income		190	193
OPERATING INCOME		29,731	31,506
Staff expenses		(4,346)	(4,067)
General and administrative expenses		(2,942)	(2,554)
Depreciation and amortisation		(40)	(196)
OPERATING EXPENSES		(7,328)	(6,817)
OPERATING PROFIT BEFORE PROVISIONS		22,403	24,689
Impairment and other provisions	10	(22,067)	(23,342)
PROFIT BEFORE TAXATION		336	1,347
Taxation		(8)	(13)
NET PROFIT FOR THE PERIOD		328	1,334
Attributable to:			
Shareholders of the Parent Bank		329	1,332
Non-controlling interests		(1)	2
		328	1,334
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	11	0.3	1.0

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.


INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Period ended 31 March 2012 (Unaudited)

	Three months ended 31 March	
	2012 KD 000's	2011 KD 000's
Net profit for the period	328	1,334
OTHER COMPREHENSIVE INCOME:		
Changes in fair value of investment securities	(12,229)	(7,324)
Net gain (loss) on disposal / impairment of investment securities	331	(179)
Share of other comprehensive loss of an associate	(28)	(108)
	(11,926)	(7,611)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(11,598)	(6,277)
Attributable to:		
Shareholders of the Parent Bank	(11,605)	(6,231)
Non-controlling interests	7	(46)
	(11,598)	(6,277)

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.



The Commercial Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2012 (Unaudited)

	KD 000's													
	Attributable to shareholders of the Parent Bank													
	Share Capital	Treasury Shares	Treasury Shares Reserve	Share Premium	Statutory Reserve	General Reserve	Reserves			Retained Earnings	Proposed Dividend	Non-controlling Interests	Total	
Treasury Shares Reserve							Property Revaluation Reserve	Investment Valuation Reserve	Total Reserves					
Balance at 1 January 2011	127,202	(75)	66,791	63,601	17,927	45,603	20,804	10,753	225,479	113,333	19,079	485,018	1,032	486,050
Total comprehensive (loss) income for the period	-	-	-	-	-	-	-	(7,563)	(7,563)	1,332	-	(6,231)	(46)	(6,277)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(19,079)	(19,079)	(60)	(19,139)
Balance at 31 March 2011	127,202	(75)	66,791	63,601	17,927	45,603	20,804	3,190	217,916	114,665	-	459,708	926	460,634
Balance at 1 January 2012	127,202	(75)	66,791	63,601	17,927	45,603	22,172	73,112	289,206	114,143	-	530,476	913	531,389
Total comprehensive (loss) income for the period	-	-	-	-	-	-	-	(11,934)	(11,934)	329	-	(11,605)	7	(11,598)
Balance at 31 March 2012	127,202	(75)	66,791	63,601	17,927	45,603	22,172	61,178	277,272	114,472	-	518,871	920	519,791

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

Period ended 31 March 2012 (Unaudited)

	Note	Three months ended 31 March	
		2012 KD 000's	2011 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		336	1,347
Adjustments for:			
Impairment and other provisions	10	22,067	23,342
Income from investment securities		(1,520)	(2,294)
Foreign exchange loss (gain) on investment securities		727	(622)
Depreciation and amortisation		40	196
Share of results from an associate		-	(165)
Profit before changes in operating assets and liabilities		<u>21,650</u>	<u>21,804</u>
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		13,001	(40,633)
Due from banks and other financial institutions		(57,093)	(91,573)
Loans and advances		(33,939)	90,602
Other assets		4,163	810
Due to banks and other financial institutions		(30,996)	(77,015)
Customer deposits		117,129	247,417
Other liabilities		2,799	7,991
Net cash from operating activities		<u>36,714</u>	<u>159,403</u>
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		7,046	7,337
Acquisition of investment securities		(5,015)	(26,051)
Dividend income from investment securities		1,383	1,989
Proceeds from disposal of premises and equipment		36	-
Acquisition of premises and equipment		(306)	(106)
Net cash from (used in) investing activities		<u>3,144</u>	<u>(16,831)</u>
FINANCING ACTIVITIES			
Dividends paid		-	(19,079)
Dividend paid to non controlling interest		-	(60)
Net cash used in financing activities		<u>-</u>	<u>(19,139)</u>
Net increase in cash and short term funds		39,858	123,433
Cash and short term funds at 1 January		198,470	208,353
Cash and short term funds at 31 March	5	<u><u>238,328</u></u>	<u><u>331,786</u></u>

The attached notes 1 to 15 form an integral part of this interim condensed consolidated financial information.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait S.A.K (the "Parent Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a Bank with the Central Bank of Kuwait ("CBK") and listed on the Kuwait Stock Exchange ("KSE"). The address of the registered office of the Parent Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

The Parent Bank and its subsidiaries are together referred to as "the Group" in this interim condensed consolidated financial information.

2 SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". The accounting policies used in the preparation of the 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 2011.

The interim condensed consolidated financial information does not include all the information and notes required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the Government of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the IAS 39 "Financial instruments: recognition and measurement" requirement for collective provision, which has been replaced by the CBK's requirement for a minimum general provision.

The policy of the Group for calculation of the impairment provisions for loans and advances complies in all material respects with the specific provision requirements of the CBK.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended 31 March 2012 are not necessarily indicative of the results that may be expected for the year ending 31 December 2012. For further information, refer to the consolidated financial statements included in the Group's annual report for the year ended 31 December 2011.

3 SUBSIDIARIES

Name of entities	Country of incorporation	Principal activities	% of ownership		
			31 March 2012	31 December 2011	31 March 2011
Al Tijari Investment Company K.S.C (Closed)	Kuwait	Investment Banking	100	100	100
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage Services	80	80	80

4 PROVISIONS NO LONGER REQUIRED

Under the terms of Law 41/93, provision no longer required as at 31 March 2012 amounted to KD nil thousand (31 March 2011: KD nil). The ultimate amount to be ceded to the CBK will depend on the situation at the year end. The identification of provisions no longer required was made on a basis consistent with that adopted at 31 December 2011 and in accordance with the instructions of the CBK.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

5 CASH AND SHORT TERM FUNDS

	31 March 2012 KD 000's	<i>(Audited)</i> 31 December 2011 KD 000's	31 March 2011 KD 000's
Cash and cash items	33,479	45,512	37,868
Balances with the CBK	15,128	6,412	97,724
Deposits with banks maturing within seven days	189,721	146,546	196,194
	238,328	198,470	331,786

Cash and short term funds are classified as "loans and receivables".

6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 March 2012 KD 000's	<i>(Audited)</i> 31 December 2011 KD 000's	31 March 2011 KD 000's
Placements with banks	461,731	398,499	270,635
Loans and advances to banks	1,351	1,327	29,083
Amounts due from other financial institutions	-	6,163	28,391
	463,082	405,989	328,109
Less : Provision for impairment	-	-	(13,854)
	463,082	405,989	314,255

Due from banks and other financial institutions are classified as "loans and receivables".

7 LOANS AND ADVANCES

Loans and advances are classified as "loans and receivables".

8 INVESTMENT SECURITIES

As of 31 March 2012, investment securities include 348,483,589 shares carried at a fair value of KD 188,181 thousand. The Parent Bank acquired 221,421,095 of these shares at a cost of KD 94,103 thousand in the year 2009 under a transaction executed through the KSE where the counterparty subsequently failed to exercise their buy back option within the agreed time frame. During 2010, the Parent Bank participated in the rights issue and acquired 127,062,494 shares at a cost of KD 32,401 thousand. As at the reporting date, the Parent Bank holds the title of the underlying shares. The counterparty raised a legal case challenging the Parent Bank's ownership that is currently pending at the court of law. On the basis of legal counsel, management believes that they have a meritorious defense.

During the period, the Group recognised an unrealised loss of KD 12,229 thousand (31 March 2011: KD 7,324 thousand) in the interim condensed consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 331 thousand (31 March 2011: KD 179 thousand) to the interim condensed consolidated statement of income on disposal of "available for sale" investment securities.

Impairment loss of KD 8,601 thousand (31 March 2011: KD 841 thousand) was also charged to the interim condensed consolidated statement of income.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

9 INTEREST INCOME

Interest income includes a release of KD 250 thousand (31 March 2011: KD 80 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the year 2007, as per Central Bank circular 2/202BS RSA/2007 dated 13 February 2007 and 2/105 dated 23 April 2008.

10 IMPAIRMENT AND OTHER PROVISIONS

The following amounts were (charged) / released to the interim condensed consolidated statement of income during the period:

	Three months ended 31 March	
	2012 KD 000's	2011 KD 000's
Loans and advances - specific	(11,013)	(12,302)
Loans and advances - general	(1,977)	(11,189)
Investment securities	(8,601)	(841)
Non cash facilities	(488)	953
Other provisions	12	37
	<u>(22,067)</u>	<u>(23,342)</u>

11 EARNINGS PER SHARE

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

	Three months ended 31 March	
	2012	2011
Net profit for the period attributable to shareholders of the Parent Bank (KD 000's)	<u>329</u>	<u>1,332</u>
Weighted average of authorised and subscribed shares (numbers in 000's)	1,272,022	1,272,022
Less: Weighted average of treasury shares held (numbers in 000's)	(70)	(70)
	<u>1,271,952</u>	<u>1,271,952</u>
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	<u>0.3</u>	<u>1.0</u>


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

12 RELATED PARTY TRANSACTIONS

During the period certain related parties (directors and officers of the Group, their families and companies of which they are principal owners) were customers of the Group 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. The balances at the reporting date are as follows:

	31 March 2012			31 March 2011		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	1	-	70	-	-	-
Credit cards	2	-	4	1	-	1
Deposits	7	-	167	5	-	65
Executive Management						
Loans	8	-	82	7	1	138
Credit cards	9	-	7	11	5	2
Deposits	13	12	530	12	22	1,972

The loans issued to directors and executive management are mainly repayable within 1 year and have interest rates ranging from 0% to 1.5% (31 March 2011: 0% to 6%).

The transactions included in the interim condensed consolidated statement of income are as follows:

Three months ended 31 March	
2012	2011
KD 000's	KD 000's

Key management compensation:

Salaries and other short-term benefits	(224)	(194)
Post employment benefits	(4)	(4)
Termination benefits	(21)	(27)


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

13 SEGMENTAL ANALYSIS

The Group operates in banking, brokerage services and investment activities which are segmented between:

- Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.
- Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds, asset management and brokerage services.

	KD 000's					
	Corporate and Retail Banking		Treasury and Investment Banking		Total	
	Three months ended 31 March		Three months ended 31 March		Three months ended 31 March	
	2012	2011	2012	2011	2012	2011
Net interest income	18,457	19,640	1,782	810	20,239	20,450
Non interest income	6,919	6,783	2,573	4,273	9,492	11,056
Operating income	25,376	26,423	4,355	5,083	29,731	31,506
Impairment and other provisions	(13,491)	(22,510)	(8,576)	(832)	(22,067)	(23,342)
Net profit / (loss) for the period	7,758	411	(7,430)	923	328	1,334
Assets	2,213,045	2,303,279	1,586,242	1,471,353	3,799,287	3,774,632
Liabilities & Equity	1,376,530	1,319,982	2,422,757	2,454,650	3,799,287	3,774,632

14 OFF BALANCE SHEET ITEMS
(a) Financial instruments with contractual amounts

In the normal course of business the Group makes commitments to extend credit to customers. The contracted amounts represent the credit risk assuming that the amounts are fully advanced and that any collateral is of no value. The total contractual amount of the commitment does not necessarily represent the future cash requirement as in many cases these contracts terminate without being funded.

(i) Financial instruments with contractual amounts representing credit risk

	<i>(Audited)</i>		
	31 March 2012 KD 000's	31 December 2011 KD 000's	31 March 2011 KD 000's
Acceptances	57,323	82,826	58,467
Letters of credit	163,759	194,571	159,006
Letters of guarantee	857,431	860,491	867,295
Others	36,168	35,953	37,338
	1,114,681	1,173,841	1,122,106


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2012 (Unaudited)

(ii) Financial instruments with contractual or notional amounts that are subject to credit risk

	31 March 2012 KD 000's	<i>(Audited)</i> 31 December 2011 KD 000's	31 March 2011 KD 000's
Foreign exchange contracts - forward	324,582	402,199	126,838
Option	-	3,281	-

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favorable to the Group, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding.

The fair value of derivative instruments outstanding as at 31 March 2012 is not material to the interim condensed consolidated financial information.

(b) Fiduciary assets

The Group manages money market and equity funds, the net asset value of which as at 31 March 2012 is KD 50,337 thousand (31 December 2011: KD 37,280 thousand and 31 March 2011: KD 54,165 thousand).

(c) Legal claims

At the reporting date certain legal claims existed against the Group for which KD 1,518 thousand (31 December 2011: KD 1,676 thousand and 31 March 2011: KD 1,892 thousand) has been provided.

15 ANNUAL GENERAL MEETING

Annual general meeting for the year ended 31 December 2011 has not been held until the date of preparation of the interim condensed consolidated financial information. Accordingly, the consolidated financial statements for the year ended 31 December 2011 have not yet been approved. The interim condensed consolidated financial information for the period ended 31 March 2012 does not include any adjustments, which might have been required, had the annual general meeting approved the consolidated financial statements for the year ended 31 December 2011.