

**The Commercial Bank of Kuwait S.A.K.**

**Interim Consolidated Financial Report**

**31 March 2009**

**Bader & Co. PricewaterhouseCoopers**

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

*Introduction*

We have reviewed the accompanying condensed consolidated balance sheet of The Commercial Bank of Kuwait S.A.K (“the Bank”) and its subsidiaries (together called “the Group”) as of 31 March 2009 and the related 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 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 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 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 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, no violations of the Commercial Companies’ Law of 1960, as amended, or of the Articles of Association of the Bank have occurred during the period ended 31 March 2009 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.



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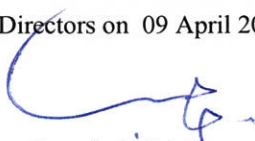
**CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

31 March 2009

	Note	31-03-2009 KD 000's	31-12-2008 KD 000's	31-03-2008 KD 000's
<b>ASSETS</b>				
Cash and short term funds	5	322,509	319,709	119,548
Treasury and Central Bank bonds		281,604	251,811	268,617
Due from banks and other financial institutions	6	655,736	939,161	1,360,423
Loans and advances	7	2,497,646	2,430,381	2,241,180
Investment securities	8	120,521	130,492	181,030
Premises and equipment		31,002	30,784	28,173
Goodwill and intangible assets		18,659	18,662	-
Other assets	9	110,427	185,651	28,877
<b>TOTAL ASSETS</b>		<b>4,038,104</b>	<b>4,306,651</b>	<b>4,227,848</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to banks and other financial institutions		1,214,329	1,042,693	1,290,555
Customer deposits		2,271,368	2,644,840	2,377,481
Subordinated loan		-	-	15,930
Other liabilities		101,132	121,725	102,802
<b>Total liabilities</b>		<b>3,586,829</b>	<b>3,809,258</b>	<b>3,786,768</b>
<b>EQUITY</b>				
Equity attributable to shareholders of the parent Bank				
Share capital		127,202	127,202	127,202
Treasury shares		-	-	(16,929)
Reserves		228,308	226,805	251,618
Retained earnings		95,149	91,814	79,189
<b>Proposed dividend</b>		<b>-</b>	<b>50,881</b>	<b>-</b>
<b>Minority interest</b>		<b>616</b>	<b>691</b>	<b>-</b>
<b>Total equity</b>		<b>451,275</b>	<b>497,393</b>	<b>441,080</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,038,104</b>	<b>4,306,651</b>	<b>4,227,848</b>

The interim consolidated financial report has been approved for issue by the Board of Directors on 09 April 2009 and signed on their behalf by:

  
**Abdulmajeed Haji AlShatti**  
 Chairman

  
**Jamal Abdul Hameed Al Mutawa**  
 Chief General Manager & CEO

The attached notes 1 to 16 form part of the interim consolidated financial report.

**CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)**

Period ended 31 March 2009

	Note	Period Ended	
		31-03-2009 KD 000's	31-03-2008 KD 000's
Interest income	10	49,276	67,911
Interest expense		(24,086)	(38,052)
<b>NET INTEREST INCOME</b>		<b>25,190</b>	<b>29,859</b>
Fees and commissions		7,646	7,188
Fund management fees		270	571
Dividend income		1,881	2,615
Net (loss)/ gain from dealing in foreign currencies		(362)	1,584
Net (loss)/ gain from investment securities		(1,429)	27,580
Other operating income		183	210
<b>OPERATING INCOME</b>		<b>33,379</b>	<b>69,607</b>
Staff		(4,731)	(4,251)
General and administration		(3,034)	(2,844)
Depreciation		(439)	(386)
<b>OPERATING EXPENSES</b>		<b>(8,204)</b>	<b>(7,481)</b>
<b>PROFIT BEFORE PROVISIONS</b>		<b>25,175</b>	<b>62,126</b>
Impairment and other provisions	11	(21,883)	(26,403)
<b>PROFIT FROM OPERATIONS</b>		<b>3,292</b>	<b>35,723</b>
Taxes and contributions		(153)	(1,538)
Directors' fees		-	(65)
<b>NET PROFIT FOR THE PERIOD</b>		<b>3,139</b>	<b>34,120</b>
<b>Attributable to:</b>			
Shareholders of the parent Bank		3,335	34,120
Minority interest		(196)	-
		<b>3,139</b>	<b>34,120</b>
Earnings per share attributable to shareholders of the parent Bank (fils)	12	2.6	27.0

The attached notes 1 to 16 form part of the interim consolidated financial report.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

Period ended 31 March 2009

	<b>Period Ended</b>	
	<b>31-03-2009</b>	<b>31-03-2008</b>
	<b>KD 000's</b>	<b>KD 000's</b>
Net profit for the period	3,139	34,120
<b>Other comprehensive income:</b>		
Changes in fair value of financial assets	613	3,387
Net gain/ (loss) on disposal/ impairment of financial assets	1,075	(11,663)
	<u>1,688</u>	<u>(8,276)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>4,827</b>	<b>25,844</b>
<b>Attributable to:</b>		
Shareholders of the parent Bank	4,838	25,844
Minority interest	(11)	-
	<u>4,827</u>	<u>25,844</u>

The attached notes 1 to 16 form part of the interim consolidated financial report.



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Period ended 31 March 2009

	Attributable to shareholders of the parent Bank												
	Reserves												
	Share Capital	Proposed Bonus Shares	Treasury Shares	Share Premium	Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Fair Valuation Reserve	Retained Earnings	Proposed Dividend	Minority Interest	Total
<b>Balance 31-12-2007</b>	121,145	6,057	(7,223)	66,791	60,572	17,927	52,242	22,915	39,684	44,372	102,534	-	527,016
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(8,773)	34,617	-	-	25,844
Treasury shares purchased	-	-	(11,618)	-	-	-	-	-	-	-	-	-	(11,618)
Treasury shares sold	-	-	1,912	-	-	-	260	-	-	-	-	-	2,172
Bonus shares issued	6,057	(6,057)	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	200	(102,534)	-	(102,334)
<b>Balance 31-03-2008</b>	<b>127,202</b>	<b>-</b>	<b>(16,929)</b>	<b>66,791</b>	<b>60,572</b>	<b>17,927</b>	<b>52,502</b>	<b>22,915</b>	<b>30,911</b>	<b>79,189</b>	<b>-</b>	<b>-</b>	<b>441,080</b>
<b>Balance 31-12-2008</b>	<b>127,202</b>	<b>-</b>	<b>-</b>	<b>66,791</b>	<b>63,601</b>	<b>17,927</b>	<b>45,603</b>	<b>25,336</b>	<b>7,547</b>	<b>91,814</b>	<b>50,881</b>	<b>691</b>	<b>497,393</b>
Total comprehensive income for the period	-	-	-	-	-	-	-	-	1,503	3,335	-	(11)	4,827
Dividend paid	-	-	-	-	-	-	-	-	-	-	(50,881)	(64)	(50,945)
<b>Balance 31-03-2009</b>	<b>127,202</b>	<b>-</b>	<b>-</b>	<b>66,791</b>	<b>63,601</b>	<b>17,927</b>	<b>45,603</b>	<b>25,336</b>	<b>9,050</b>	<b>95,149</b>	<b>-</b>	<b>616</b>	<b>451,275</b>

Annual general meeting held on 11 March 2009 approved the distribution of cash dividend of 40% (40 fils per share) to the shareholders registered in the Bank's records as of the date of annual general meeting.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)**

Period ended 31 March 2009

	Note	Period Ended	
		31-03-2009 KD 000's	31-03-2008 KD 000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit from operations		3,292	35,723
Adjustments for :			
Provisions for loans and advances		1,240	25,165
Income from investment securities		(452)	(30,195)
Foreign exchange and other (gains)/ losses on investment securities		(714)	587
Foreign exchange gain on financing activities		-	(450)
Depreciation		439	386
Other provisions and valuation adjustments		20,643	1,238
		<u>24,448</u>	<u>32,454</u>
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		(29,793)	(60,972)
Due from banks and other financial institutions		283,425	(155,162)
Loans and advances		(68,505)	(52,124)
Other assets		75,219	(5,384)
Due to banks and other financial institutions		171,636	281,059
Customer deposits		(373,472)	(258,369)
Other liabilities		(19,904)	754
Net cash from/ (used in) operating activities		<u>63,054</u>	<u>(217,744)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investment securities		5,648	116,235
Acquisition of investment securities		(16,248)	(38,891)
Dividend income from investment securities		1,881	2,615
Proceeds from disposal of premises and equipment		2	2
Acquisition of premises and equipment		(656)	(913)
Net cash (used in)/ from investing activities		<u>(9,373)</u>	<u>79,048</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of treasury shares		-	(11,618)
Sale of treasury shares		-	2,172
Dividends paid		(50,881)	(102,334)
Net cash used in financing activities		<u>(50,881)</u>	<u>(111,780)</u>
Net increase/ (decrease) in cash and short term funds		2,800	(250,476)
Cash and short term funds at the beginning of the period		319,709	370,024
<b>Cash and short term funds at the end of the period</b>	<b>5</b>	<u><b>322,509</b></u>	<u><b>119,548</b></u>

The attached notes 1 to 16 form part of the interim consolidated financial report.



31 March 2009

## 1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait (the Parent Bank) is a public shareholding company incorporated in Kuwait and is registered as a Bank with the Central Bank of Kuwait. The Parent Bank and its subsidiaries are together referred to as "the Group" in these interim consolidated financial report.

The address of the registered office of the Bank is: The Commercial Bank of Kuwait S.A.K., P.O. Box 2861, 13029 Safat, Kuwait.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial report has been prepared in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting". However, this does not include all the information and notes required for complete 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 Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait'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 Central Bank of Kuwait.

The accounting policies used in the preparation of the interim consolidated financial report are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2008, except for the adoption of amendments in IAS 34 "Interim Financial Reporting"

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 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009. For further information, refer to the consolidated financial statements included in the Group's annual report for the year ended 31 December 2008.

## 3 SUBSIDIARIES

Name of entities	Country of incorporation	Principal business	% of Ownership
Al Tijari Investment Company K.S.C (Closed)	Kuwait	Investment banking	100
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage Services	80

## 4 PROVISIONS NO LONGER REQUIRED

Under the terms of Law 41/93, provision no longer required as at 31 March 2009 amounted to KD 17 thousand (31 March 2008: KD Nil). The ultimate amount to be ceded to Central Bank of Kuwait 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 2008 and in accordance with the instructions of Central Bank of Kuwait.




**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (UNAUDITED)**

31 March 2009

**5 CASH AND SHORT TERM FUNDS**

	31-03-2009 KD 000's	31-12-2008 KD 000's	31-03-2008 KD 000's
Cash and cash items	33,178	42,631	32,810
Balances with the Central Bank of Kuwait	57,013	29,104	19,867
Deposits with banks maturing within seven days	232,318	247,974	66,871
	<b>322,509</b>	<b>319,709</b>	<b>119,548</b>

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

**6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	31-03-2009 KD 000's	31-12-2008 KD 000's	31-03-2008 KD 000's
Deposits with banks	560,695	801,375	1,145,873
Loans and advances to banks	59,961	85,268	170,491
Amounts due from other financial institutions	39,430	56,639	48,023
	<b>660,086</b>	<b>943,282</b>	<b>1,364,387</b>
Less : Specific provision	(4,350)	(4,121)	(3,964)
	<b>655,736</b>	<b>939,161</b>	<b>1,360,423</b>

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**

Investment securities include a 32% equity holding in Al Cham Bank of KD 6,155 thousand, that is not equity accounted as it is not material to the accompanying interim consolidated financial report.

**9 OTHER ASSETS**

Other assets include an amount receivable of KD 93,536 thousand (31 December 2008: KD 93,536 thousand), being the value of a transaction, for which the counterparty has a buy-back option to purchase the underlying securities at a future date at a specified price. Based on the agreement, the Parent Bank purchased the underlying securities from the counterparty through the Kuwait Stock Exchange. Subsequently, the counterparty has proposed to terminate this agreement. As at the balance sheet date, the Parent Bank owns the title of the underlying securities. The Parent Bank proposes to settle the transaction in due course through the Kuwait Stock Exchange with the counterparty repurchasing the underlying securities from the Parent Bank and paying the agreed purchase consideration.


**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (UNAUDITED)**

31 March 2009

**10 INTEREST INCOME**

Interest income includes a release of KD 41 thousand (31 March 2008: KD 743 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.

Interest income also includes a release of KD 1,394 thousand (31 March 2008: Nil) due to adjustments arising from revised estimates of future cash flows discounted at the original contracted rates from a portfolio of performing loans that have had their terms modified during the year as per Central Bank circular 2/105 dated 23 April 2008.

**11 IMPAIRMENT AND OTHER PROVISIONS**

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

	<b>Period Ended</b>	
	<b>31-03-2009</b>	<b>31-03-2008</b>
	<b>KD 000's</b>	<b>KD 000's</b>
Loans and advances to customers - specific	(1,109)	(2,135)
Loans and advances to customers - general	(131)	(23,030)
Non cash facilities	(145)	77
Investment securities	(20,619)	-
Other provisions	121	(1,315)
	<b>(21,883)</b>	<b>(26,403)</b>

**12 EARNINGS PER SHARE**

	<b>Period Ended</b>	
	<b>31-03-2009</b>	<b>31-03-2008</b>
Net profit for the period attributable to shareholders of the parent Bank (KD 000's)	3,335	34,120
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)	-	(6,447)
	1,272,022	1,265,575
Earnings per share attributable to shareholders of the parent Bank (fils)	<b>2.6</b>	<b>27.0</b>



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (UNAUDITED)

31 March 2009

## 13 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 balance sheet date are as follows:

	31-03-2009			31-03-2008		
	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
<b>Board of Directors</b>						
Loans	1	2	36,907	1	2	34,112
Credit cards	1	1	-	1	4	3
Deposits	7	17	1,085	7	15	14,802
<b>Executive Management</b>						
Loans	11	2	317	12	2	612
Credit cards	6	1	6	4	4	14
Deposits	14	31	6,075	14	32	983

The loans issued to directors and executive management are mainly repayable within 1 year and have interest rates ranging from 3.75 % to 7.75 % (31 March 2008: 4.75 % to 9.75%). The loans given to related parties are collateralised by real-estate and equities. The fair value of these collaterals as at 31 March 2009 is KD 35,234 thousand (31 March 2008: KD 54,315 thousand).

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

	Period Ended	
	31-03-2009 KD 000's	31-03-2008 KD 000's
Interest income	564	685
Interest expense	(59)	(12)
Key management compensation:		
Short-term benefits	(338)	(313)
Post employment benefits	(4)	(4)
Termination benefits	(17)	(36)



## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (UNAUDITED)

31 March 2009

## 14 SEGMENTAL ANALYSIS

## (a) By business segments

The Group operates in three business segments namely banking, brokerage services and investment activities which are segmented between domestic and international activities.

	31-03-2009			31-03-2008		
	KD 000's			KD 000's		
	Domestic	International	Total	Domestic	International	Total
Interest income	48,525	751	49,276	65,478	2,433	67,911
Non interest income	7,395	794	8,189	39,096	652	39,748
Total revenues	55,920	1,545	57,465	104,574	3,085	107,659
Impairment and other provisions	(21,825)	(58)	(21,883)	(26,402)	(1)	(26,403)
Net profit for the period	2,231	908	3,139	33,123	997	34,120
Assets	3,982,096	56,008	4,038,104	4,035,622	192,226	4,227,848
Liabilities & Equity	4,011,687	26,417	4,038,104	4,205,300	22,548	4,227,848

## (b) By geographic sector

All business is conducted from Kuwait.

## 15 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

	31-03-2009	31-12-2008	31-03-2008
	KD 000's	KD 000's	KD 000's
Acceptances	251,480	252,065	55,042
Letters of credit	414,347	562,471	621,307
Letters of guarantee	1,098,927	1,122,408	1,055,857
Others	43,322	42,251	35,975
	<b>1,808,076</b>	<b>1,979,195</b>	<b>1,768,181</b>


**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL REPORT (UNAUDITED)**

31 March 2009

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

	31-03-2009	31-12-2008	31-03-2008
	KD 000's	KD 000's	KD 000's
Foreign exchange contracts - spot and forward	48,470	118,186	252,781
Interest rate swaps	225	213	341

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable 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 on 31 March 2009 is not material.

**(b) Fiduciary assets**

The Group manages investment/money market funds, the net asset value of which at 31 March 2009 is KD 106,325 thousand (31 December 2008: KD 127,020 thousand and 31 March 2008: KD 220,619 thousand).

**(c) Legal claims**

At the balance sheet date certain legal claims existed against the Group and for which KD 2,932 thousand (31 December 2008: KD 3,109 thousand and 31 March 2008: KD 2,342 thousand) has been provided.

**16 COMPARATIVE FIGURES**

Certain of the prior period amounts have been reclassified to conform with the presentation in the current period.