

**The Commercial Bank of Kuwait Group**  
**Interim Condensed Consolidated Financial Information**  
**30 September 2010 (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 30 September 2010 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the nine 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 during the period ended 30 September 2010 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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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 September 2010 (Unaudited)

|   |      | <i>(Audited)</i>                 |                                 |                                  |
|---|------|----------------------------------|---------------------------------|----------------------------------|
|   | Note | 30 September<br>2010<br>KD 000's | 31 December<br>2009<br>KD 000's | 30 September<br>2009<br>KD 000's |
| <b>ASSETS</b>   |      |                                  |                                 |                                  |
| Cash and short term funds                                     | 5    | 229,468                          | 252,658                         | 167,707                          |
| Treasury and Central Bank bonds                               |      | 501,112                          | 361,345                         | 332,322                          |
| Due from banks and other financial institutions               | 6    | 258,997                          | 275,573                         | 495,770                          |
| Loans and advances  | 7    | 2,304,476                        | 2,406,910                       | 2,401,845                        |
| Investment securities   | 8    | 253,691                          | 222,144                         | 238,117                          |
| Investment in an associate                                    |      | 8,743                            | 3,721                           | -                                |
| Premises and equipment  |      | 25,588                           | 26,153                          | 30,575                           |
| Goodwill and other intangible assets                          |      | 18,506                           | 18,517                          | 18,652                           |
| Other assets  |      | 38,032                           | 28,276                          | 29,798                           |
| <b>TOTAL ASSETS</b>   |      | <b>3,638,613</b>                 | <b>3,595,297</b>                | <b>3,714,786</b>                 |
| <b>LIABILITIES AND EQUITY</b>                                 |      |                                  |                                 |                                  |
| <b>LIABILITIES</b>  |      |                                  |                                 |                                  |
| Due to banks and other financial institutions                 |      | 793,472                          | 1,044,014                       | 1,209,920                        |
| Customer deposits   |      | 2,302,419                        | 2,041,909                       | 1,953,436                        |
| Other liabilities   |      | 77,508                           | 68,619                          | 106,527                          |
| <b>TOTAL LIABILITIES</b>                                      |      | <b>3,173,399</b>                 | <b>3,154,542</b>                | <b>3,269,883</b>                 |
| <b>EQUITY</b>   |      |                                  |                                 |                                  |
| <b>Equity attributable to shareholders of the Parent Bank</b> |      |                                  |                                 |                                  |
| Share capital   |      | 127,202                          | 127,202                         | 127,202                          |
| Treasury shares   |      | (75)                             | (75)                            | (75)                             |
| Reserves  |      | 224,652                          | 220,852                         | 226,760                          |
| Retained earnings   |      | 112,431                          | 91,960                          | 90,106                           |
| <b>Non-controlling interests</b>                              |      | <b>1,004</b>                     | <b>816</b>                      | <b>910</b>                       |
| <b>TOTAL EQUITY</b>   |      | <b>465,214</b>                   | <b>440,755</b>                  | <b>444,903</b>                   |
| <b>TOTAL LIABILITIES AND EQUITY</b>                           |      | <b>3,638,613</b>                 | <b>3,595,297</b>                | <b>3,714,786</b>                 |

The interim condensed consolidated financial information has been approved for issue by the Board of Directors on 04 November 2010 and signed on their behalf by:

  
**Bader Sulaiman Al-Ahmed**  
 Chairman

  
**Elham Yousry Mahfouz**  
 Acting CEO

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 30 September 2010 (Unaudited)

|   | Note | Three months ended<br>30 September |                | Nine months ended<br>30 September |                 |
|---|------|------------------------------------|----------------|-----------------------------------|-----------------|
|   |      | 2010                               | 2009           | 2010                              | 2009            |
|   |      | KD 000's                           | KD 000's       | KD 000's                          | KD 000's        |
| Interest income   | 9    | 35,783                             | 37,976         | 102,096                           | 129,531         |
| Interest expense  |      | (11,650)                           | (14,071)       | (38,298)                          | (55,903)        |
| <b>NET INTEREST INCOME</b>  |      | <b>24,133</b>                      | <b>23,905</b>  | <b>63,798</b>                     | <b>73,628</b>   |
| Fees and commissions  |      | 7,399                              | 5,701          | 20,337                            | 23,682          |
| Fund management fees  |      | 259                                | 346            | 790                               | 936             |
| Net gain from dealing in foreign currencies   |      | 1,250                              | 966            | 3,451                             | 1,771           |
| Net gain from investment securities   |      | 868                                | 8,327          | 579                               | 20,257          |
| Dividend income   |      | 14                                 | 59             | 1,858                             | 2,271           |
| Share of result from an associate   |      | 91                                 | -              | 144                               | -               |
| Other operating income  |      | 180                                | 198            | 603                               | 584             |
| <b>OPERATING INCOME</b>   |      | <b>34,194</b>                      | <b>39,502</b>  | <b>91,560</b>                     | <b>123,129</b>  |
| Staff expenses  |      | (4,460)                            | (4,318)        | (13,504)                          | (13,825)        |
| General and administrative expenses   |      | (2,775)                            | (2,360)        | (8,703)                           | (8,604)         |
| Depreciation and amortisation   |      | (384)                              | (705)          | (732)                             | (1,670)         |
| <b>OPERATING EXPENSES</b>   |      | <b>(7,619)</b>                     | <b>(7,383)</b> | <b>(22,939)</b>                   | <b>(24,099)</b> |
| <b>OPERATING PROFIT BEFORE PROVISIONS</b>   |      | <b>26,575</b>                      | <b>32,119</b>  | <b>68,621</b>                     | <b>99,030</b>   |
| Impairment and other provisions   | 10   | (6,049)                            | (34,623)       | (47,193)                          | (100,693)       |
| <b>OPERATING PROFIT / (LOSS) BEFORE TAXATION</b>                                      |      | <b>20,526</b>                      | <b>(2,504)</b> | <b>21,428</b>                     | <b>(1,663)</b>  |
| Taxation  |      | (881)                              | 20             | (893)                             | (2)             |
| <b>NET PROFIT / (LOSS) FOR THE PERIOD</b>   |      | <b>19,645</b>                      | <b>(2,484)</b> | <b>20,535</b>                     | <b>(1,665)</b>  |
| <b>Attributable to:</b>   |      |                                    |                |                                   |                 |
| Shareholders of the Parent Bank   |      | 19,631                             | (2,602)        | 20,471                            | (1,708)         |
| Non-controlling interests   |      | 14                                 | 118            | 64                                | 43              |
|   |      | <b>19,645</b>                      | <b>(2,484)</b> | <b>20,535</b>                     | <b>(1,665)</b>  |
| Earnings / (loss) per share attributable to<br>shareholders of the Parent Bank (fils) | 11   | <b>15.4</b>                        | <b>(2.0)</b>   | <b>16.1</b>                       | <b>(1.3)</b>    |

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 30 September 2010 (Unaudited)

|  | Three months ended<br>30 September |                  | Nine months ended<br>30 September |                  |
|--|------------------------------------|------------------|-----------------------------------|------------------|
|  | 2010<br>KD 000's                   | 2009<br>KD 000's | 2010<br>KD 000's                  | 2009<br>KD 000's |
| Net profit / (loss) for the period                         | <b>19,645</b>                      | (2,484)          | <b>20,535</b>                     | (1,665)          |
| <b>OTHER COMPREHENSIVE INCOME:</b>                         |                                    |                  |                                   |                  |
| Changes in fair value of investment securities             | <b>6,612</b>                       | (3,115)          | <b>4,489</b>                      | 9,044            |
| Net loss on disposal / impairment of investment securities | <b>(562)</b>                       | (1,786)          | <b>(565)</b>                      | (8,849)          |
|  | <b>6,050</b>                       | (4,901)          | <b>3,924</b>                      | 195              |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>           | <b>25,695</b>                      | (7,385)          | <b>24,459</b>                     | (1,470)          |
| <b>Attributable to:</b>                                    |                                    |                  |                                   |                  |
| Shareholders of the Parent Bank                            | <b>25,614</b>                      | (7,464)          | <b>24,271</b>                     | (1,753)          |
| Non-controlling interests                                  | <b>81</b>                          | 79               | <b>188</b>                        | 283              |
|  | <b>25,695</b>                      | (7,385)          | <b>24,459</b>                     | (1,470)          |

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 30 September 2010 (Unaudited)

|   | Attributable to shareholders of the Parent Bank |                 |               |                   |                 |                         |                              |                              |                |                   |                   |                           |          |
|---|---|-----------------|---------------|-------------------|-----------------|-------------------------|------------------------------|------------------------------|----------------|-------------------|-------------------|---------------------------|----------|
|   | Reserves  |                 |               |                   |                 |                         |                              |                              |                |                   |                   |                           |          |
|   | Share Capital                                   | Treasury Shares | Share Premium | Statutory Reserve | General Reserve | Treasury Shares Reserve | Property Revaluation Reserve | Investment Valuation Reserve | Total Reserves | Retained Earnings | Proposed Dividend | Non-controlling Interests | Total    |
| Balance at 1 January 2009                 | 127,202   | -               | 66,791        | 63,601            | 17,927          | 45,603                  | 25,336                       | 7,547                        | 226,805        | 91,814            | 50,881            | 691                       | 497,393  |
| Total comprehensive income for the period | -   | -               | -             | -                 | -               | -                       | -                            | (45)                         | (45)           | (1,708)           | -                 | 283                       | (1,470)  |
| Purchase of treasury shares               | -   | (75)            | -             | -                 | -               | -                       | -                            | -                            | -              | -                 | -                 | -                         | (75)     |
| Dividend paid                             | -   | -               | -             | -                 | -               | -                       | -                            | -                            | -              | (50,881)          | (50,881)          | (64)                      | (50,945) |
| Balance at 30 September 2009              | 127,202   | (75)            | 66,791        | 63,601            | 17,927          | 45,603                  | 25,336                       | 7,502                        | 226,760        | 90,106            | -                 | 910                       | 444,903  |
| Balance at 1 January 2010                 | 127,202   | (75)            | 66,791        | 63,601            | 17,927          | 45,603                  | 21,558                       | 5,372                        | 220,852        | 91,960            | -                 | 816                       | 440,755  |
| Total comprehensive income for the period | -   | -               | -             | -                 | -               | -                       | -                            | 3,800                        | 3,800          | 20,471            | -                 | 188                       | 24,459   |
| Balance at 30 September 2010              | 127,202   | (75)            | 66,791        | 63,601            | 17,927          | 45,603                  | 21,558                       | 9,172                        | 224,652        | 112,431           | -                 | 1,004                     | 465,214  |

Annual general meeting of the shareholders' held on 7 April 2010 approved not to distribute cash dividend for the year 2009 (2008: 40 fils per share) to the shareholders' registered in the Parent Bank's records as of the date of the annual general meeting.

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 30 September 2010 (Unaudited)

|   | Note | Nine months ended<br>30 September |                  |
|---|------|-----------------------------------|------------------|
|   |      | 2010<br>KD 000's                  | 2009<br>KD 000's |
| <b>OPERATING ACTIVITIES</b>   |      |                                   |                  |
| Operating profit / (loss) before taxation                           |      | 21,428                            | (1,663)          |
| Adjustments for :   |      |                                   |                  |
| Impairment and other provisions                                     |      | 47,193                            | 100,693          |
| Income from investment securities                                   |      | (2,437)                           | (22,528)         |
| Foreign exchange and other losses on investment securities          |      | 13                                | (467)            |
| Depreciation and amortisation                                       |      | 732                               | 1,670            |
| Other adjustments   |      | (37)                              | -                |
| Share of results from an associate                                  |      | (144)                             | -                |
| Operating profit before changes in operating assets and liabilities |      | 66,748                            | 77,705           |
| Changes in operating assets and liabilities:                        |      |                                   |                  |
| Treasury and Central Bank bonds                                     |      | (139,767)                         | (80,511)         |
| Due from banks and other financial institutions                     |      | 17,614                            | 434,315          |
| Loans and advances  |      | 61,970                            | (36,735)         |
| Other assets  |      | (9,739)                           | 61,678           |
| Due to banks and other financial institutions                       |      | (250,542)                         | 167,227          |
| Customer deposits   |      | 260,510                           | (691,404)        |
| Other liabilities   |      | 8,267                             | (14,880)         |
| Net cash from / (used in) operating activities                      |      | 15,061                            | (82,605)         |
| <b>INVESTING ACTIVITIES</b>   |      |                                   |                  |
| Proceeds from disposal of investment securities                     |      | 17,385                            | 74,232           |
| Acquisition of investment securities                                |      | (52,343)                          | (93,483)         |
| Acquisition of further investment in an associate                   |      | (5,022)                           | -                |
| Dividend income from investment securities                          |      | 1,858                             | 2,271            |
| Proceeds from disposal of premises and equipment                    |      | 840                               | 5                |
| Acquisition of premises and equipment                               |      | (969)                             | (1,466)          |
| Net cash used in investing activities                               |      | (38,251)                          | (18,441)         |
| <b>FINANCING ACTIVITIES</b>   |      |                                   |                  |
| Purchase of treasury shares   |      | -                                 | (75)             |
| Dividends paid  |      | -                                 | (50,881)         |
| Net cash used in financing activities                               |      | -                                 | (50,956)         |
| Net decrease in cash and short term funds                           |      | (23,190)                          | (152,002)        |
| Cash and short term funds at 1 January                              |      | 252,658                           | 319,709          |
| <b>Cash and short term funds at 30 September</b>                    | 5    | <b>229,468</b>                    | <b>167,707</b>   |

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**

30 September 2010 (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 2009. 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 30 September 2010 are not necessarily indicative of the results that may be expected for the year ending 31 December 2010. For further information, refer to the consolidated financial statements included in the Group's annual report for the year ended 31 December 2009.

**3 SUBSIDIARIES**

| Name of entities                                     | Country of incorporation | Principal activities | % of ownership    |                  |                   |
|--|--------------------------|----------------------|-------------------|------------------|-------------------|
|  |                          |                      | 30 September 2010 | 31 December 2009 | 30 September 2009 |
| Al Tijari Investment Company<br>K.S.C (Closed)       | Kuwait                   | Investment Banking   | 100               | 100              | 100               |
| Union Securities Brokerage<br>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 30 September 2010 amounted to KD 46 thousand (30 September 2009: KD 24 thousand). 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 2009 and in accordance with the instructions of the CBK.





## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2010 (Unaudited)

**5 CASH AND SHORT TERM FUNDS**

|  | <i>(Audited)</i>             |                     |                      |
|--|------------------------------|---------------------|----------------------|
|  | <b>30 September<br/>2010</b> | 31 December<br>2009 | 30 September<br>2009 |
|  | <b>KD 000's</b>              | KD 000's            | KD 000's             |
| Cash and cash items                            | 46,444                       | 45,912              | 66,739               |
| Balances with the Central Bank of Kuwait       | 38,447                       | 45,127              | 22,817               |
| Deposits with banks maturing within seven days | 144,577                      | 161,619             | 78,151               |
|  | <b>229,468</b>               | 252,658             | 167,707              |

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

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

|   | <i>(Audited)</i>             |                     |                      |
|---|------------------------------|---------------------|----------------------|
|   | <b>30 September<br/>2010</b> | 31 December<br>2009 | 30 September<br>2009 |
|   | <b>KD 000's</b>              | KD 000's            | KD 000's             |
| Deposits with banks                           | 224,192                      | 242,973             | 455,637              |
| Loans and advances to banks                   | 37,801                       | 44,925              | 48,818               |
| Amounts due from other financial institutions | 12,641                       | 8,225               | 4,721                |
|   | <b>274,634</b>               | 296,123             | 509,176              |
| Less : Specific provision                     | <b>(15,637)</b>              | (20,550)            | (13,406)             |
|   | <b>258,997</b>               | 275,573             | 495,770              |

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 348,483,589 shares carried at a cost of KD 126,504 thousand (31 December 2009: KD 94,103 thousand, 30 September 2009: KD 94,103 thousand) out of which the Parent Bank acquired 221,421,095 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.

During the period, the Group recognised an unrealised gain of KD 4,489 thousand (30 September 2009: unrealised gain of KD 9,044 thousand) in other comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 151 thousand (30 September 2009: KD 5,422 thousand) to income on disposal of "available for sale" investment securities.

Impairment loss of KD 8,043 thousand (30 September 2009: KD 25,735 thousand) was also charged to the interim condensed consolidated statement of income.



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2010 (Unaudited)

**9 INTEREST INCOME**

Interest income includes a release of KD 1,178 thousand (30 September 2009: KD 3,075 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.

**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<br>30 September |                  | Nine months ended<br>30 September |                  |
|-------------------------------|------------------------------------|------------------|-----------------------------------|------------------|
|                               | 2010<br>KD 000's                   | 2009<br>KD 000's | 2010<br>KD 000's                  | 2009<br>KD 000's |
| Loans and advances - specific | <b>1,088</b>                       | (34,274)         | <b>(40,353)</b>                   | (74,294)         |
| Loans and advances - general  | <b>(5,411)</b>                     | (2,506)          | <b>927</b>                        | (51)             |
| Investment securities         | <b>(1,719)</b>                     | (1,243)          | <b>(8,043)</b>                    | (25,735)         |
| Non cash facilities           | <b>(20)</b>                        | 3,459            | <b>(262)</b>                      | (1,036)          |
| Other provisions              | <b>13</b>                          | (59)             | <b>538</b>                        | 423              |
|                               | <b>(6,049)</b>                     | (34,623)         | <b>(47,193)</b>                   | (100,693)        |

**11 EARNINGS / (LOSS) PER SHARE**

|   | Three months ended<br>30 September |           | Nine months ended<br>30 September |           |
|---|------------------------------------|-----------|-----------------------------------|-----------|
|   | 2010                               | 2009      | 2010                              | 2009      |
| Net profit / (loss) for the period attributable to shareholders of the Parent Bank (KD 000's) | <b>19,631</b>                      | (2,602)   | <b>20,471</b>                     | (1,708)   |
| Weighted average of authorised and subscribed shares (numbers in 000's)                       | <b>1,272,022</b>                   | 1,272,022 | <b>1,272,022</b>                  | 1,272,022 |
| Less: Weighted average of treasury shares held (numbers in 000's)                             | <b>(70)</b>                        | (70)      | <b>(70)</b>                       | (31)      |
|   | <b>1,271,952</b>                   | 1,271,952 | <b>1,271,952</b>                  | 1,271,991 |
| Earnings / (loss) per share attributable to shareholders of the Parent Bank (fils)            | <b>15.4</b>                        | (2.0)     | <b>16.1</b>                       | (1.3)     |



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2010 (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:

|                             | 30 September 2010               |                           |                    | 30 September 2009               |                           |                    |
|-----------------------------|---------------------------------|---------------------------|--------------------|---------------------------------|---------------------------|--------------------|
|                             | 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                               | 7                         | 16,956             |
| Credit cards                | -                               | -                         | -                  | 3                               | 3                         | 6                  |
| Deposits                    | 4                               | 1                         | 1,113              | 7                               | 17                        | 1,140              |
| <b>Executive Management</b> |                                 |                           |                    |                                 |                           |                    |
| Loans                       | 12                              | 1                         | 261                | 4                               | 4                         | 249                |
| Credit cards                | 7                               | 2                         | 6                  | 7                               | 4                         | 10                 |
| Deposits                    | 12                              | 19                        | 1,783              | 15                              | 32                        | 3,084              |

The loans issued to directors and executive management are mainly repayable within 1 year and have interest rates ranging from 0% to 6% (30 September 2009: 5% to 7%). The loans given to related parties are collateralised by real-estate and equities. The fair value of these collaterals as at 30 September 2010 is KD nil thousand (30 September 2009: KD 6,569 thousand).

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

|                              | Nine months ended<br>30 September |                  |
|------------------------------|-----------------------------------|------------------|
|                              | 2010<br>KD 000's                  | 2009<br>KD 000's |
| Key management compensation: |                                   |                  |
| Short-term benefits          | (733)                             | (883)            |
| Post employment benefits     | (16)                              | (14)             |
| Termination benefits         | (100)                             | (60)             |



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2010 (Unaudited)

## 13 SEGMENTAL ANALYSIS

The Group operates in three business segments namely 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                          |           |
|                                    | Nine months ended 30 September |           | Nine months ended 30 September  |           | Nine months ended 30 September |           |
|                                    | 2010                           | 2009      | 2010                            | 2009      | 2010                           | 2009      |
| Interest income                    | 93,586                         | 113,137   | 8,510                           | 16,394    | 102,096                        | 129,531   |
| Non interest income                | 19,293                         | 20,909    | 8,469                           | 28,592    | 27,762                         | 49,501    |
| Total revenues                     | 112,879                        | 134,046   | 16,979                          | 44,986    | 129,858                        | 179,032   |
| Impairment and other provisions    | (39,613)                       | (75,480)  | (7,580)                         | (25,213)  | (47,193)                       | (100,693) |
| Net profit / (loss) for the period | 28,813                         | 5,786     | (8,278)                         | (7,451)   | 20,535                         | (1,665)   |
| Assets                             | 2,375,942                      | 2,455,084 | 1,262,671                       | 1,259,702 | 3,638,613                      | 3,714,786 |
| Liabilities & Equity               | 1,148,877                      | 972,593   | 2,489,736                       | 2,742,193 | 3,638,613                      | 3,714,786 |

## 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>              |                              |                               |
|----------------------|-------------------------------|------------------------------|-------------------------------|
|                      | 30 September 2010<br>KD 000's | 31 December 2009<br>KD 000's | 30 September 2009<br>KD 000's |
| Acceptances          | 48,003                        | 34,223                       | 49,382                        |
| Letters of credit    | 154,563                       | 184,845                      | 270,189                       |
| Letters of guarantee | 873,020                       | 849,666                      | 889,179                       |
| Others               | 39,225                        | 40,230                       | 40,428                        |
|                      | <b>1,114,811</b>              | <b>1,108,964</b>             | <b>1,249,178</b>              |




**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

30 September 2010 (Unaudited)

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

|   | <i>(Audited)</i>    |             |              |
|---|---------------------|-------------|--------------|
|   | <b>30 September</b> | 31 December | 30 September |
|   | <b>2010</b>         | 2009        | 2009         |
|   | <b>KD 000's</b>     | KD 000's    | KD 000's     |
| Foreign exchange contracts - spot and forward | <b>29,978</b>       | 30,128      | 28,930       |
| Interest rate swaps                           | -                   | 74          | 147          |

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 30 September 2010 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 30 September 2010 is KD 89,501 thousand (31 December 2009: KD 95,946 thousand and 30 September 2009: KD 113,399 thousand).

**(c) Legal claims**

At the reporting date certain legal claims existed against the Group were for which KD 1,893 thousand (31 December 2009: KD 2,691 thousand and 30 September 2009: KD 2,619 thousand) has been provided.

**15 COMPARATIVE FIGURES**

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