

The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

30 June 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 30 June 2012 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the six 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

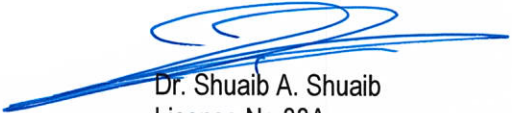
Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Parent Bank, and we have not become aware of any material violations of the Commercial Companies' Law of 1960, as amended, or of the Articles of Association of the Parent Bank have occurred during the period ended 30 June 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.

10 July 2012
Kuwait



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

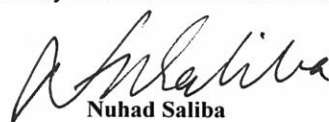

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012 (Unaudited)

		30 June 2012 KD 000's	(Audited) 31 December 2011 KD 000's	30 June 2011 KD 000's
ASSETS				
Cash and short term funds	5	146,915	198,470	148,575
Treasury and Central Bank bonds		458,471	484,036	548,902
Due from banks and other financial institutions	6	481,720	405,989	282,555
Loans and advances	7	2,139,849	2,161,007	2,187,474
Investment securities	8	401,877	394,100	330,072
Investment in an associate		7,523	9,691	8,892
Premises and equipment		26,591	26,152	24,562
Goodwill and other intangible assets		18,219	18,226	18,364
Other assets		16,749	16,621	39,375
TOTAL ASSETS		3,697,914	3,714,292	3,588,771
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		843,888	886,520	786,616
Customer deposits		2,261,517	2,253,965	2,292,129
Other liabilities		53,785	42,418	50,293
TOTAL LIABILITIES		3,159,190	3,182,903	3,129,038
EQUITY				
Equity attributable to shareholders of the Parent Bank				
Share capital		127,202	127,202	127,202
Treasury shares		(75)	(75)	(75)
Reserves		296,079	289,206	216,881
Retained earnings		114,594	114,143	114,794
		537,800	530,476	458,802
Non-controlling interests		924	913	931
TOTAL EQUITY		538,724	531,389	459,733
TOTAL LIABILITIES AND EQUITY		3,697,914	3,714,292	3,588,771

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


 Ali Mousa M. Al Mousa
 Chairman & Managing Director


 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 30 June 2012 (Unaudited)

	Note	Three months ended 30 June		Six months ended 30 June	
		2012	2011	2012	2011
		KD 000's	KD 000's	KD 000's	KD 000's
Interest income	9	30,029	36,191	58,920	68,011
Interest expense		(7,729)	(10,601)	(16,381)	(21,971)
NET INTEREST INCOME		22,300	25,590	42,539	46,040
Fees and commissions		6,786	6,810	13,650	13,864
Fund management fees		8	187	196	399
Net gain from dealing in foreign currencies		1,389	1,436	2,119	2,574
Net gain / (loss) from investment securities		106	(156)	243	149
Dividend income		802	453	2,185	2,442
Share of result from an associate		688	-	688	165
Other operating income		210	340	400	533
OPERATING INCOME		32,289	34,660	62,020	66,166
Staff expenses		(3,228)	(4,084)	(7,574)	(8,151)
General and administrative expenses		(4,129)	(2,731)	(7,071)	(5,285)
Depreciation and amortisation		(58)	(201)	(98)	(397)
OPERATING EXPENSES		(7,415)	(7,016)	(14,743)	(13,833)
OPERATING PROFIT BEFORE PROVISIONS		24,874	27,644	47,277	52,333
Impairment and other provisions	10	(24,754)	(27,447)	(46,821)	(50,789)
PROFIT BEFORE TAXATION		120	197	456	1,544
Taxation		2	1	(6)	(12)
NET PROFIT FOR THE PERIOD		122	198	450	1,532
Attributable to:					
Shareholders of the Parent Bank		122	129	451	1,461
Non-controlling interests		-	69	(1)	71
		122	198	450	1,532
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	11	0.1	0.1	0.4	1.1

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 June 2012 (Unaudited)

	Three months ended 30 June		Six months ended 30 June	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Net profit for the period	122	198	450	1,532
OTHER COMPREHENSIVE INCOME (LOSS):				
Changes in fair value of investment securities	21,626	(1,435)	9,397	(8,759)
Net gain on disposal / impairment of investment securities	13	425	344	246
Foreign currency translation adjustment	(2,828)	(89)	(2,856)	(197)
	18,811	(1,099)	6,885	(8,710)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	18,933	(901)	7,335	(7,178)
Attributable to:				
Shareholders of the Parent Bank	18,929	(906)	7,324	(7,137)
Non-controlling interests	4	5	11	(41)
	18,933	(901)	7,335	(7,178)

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 June 2012 (Unaudited)

	KD 000's											
	Attributable to shareholders of the Parent Bank											
	Share Capital	Treasury Shares	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	20,804	10,753	225,479	113,333	19,079	1,032	486,050
Total comprehensive (loss) income for the period	-	-	-	-	-	-	(8,598)	(8,598)	1,461	-	(41)	(7,178)
Dividend paid	-	-	-	-	-	-	-	-	-	(19,079)	(60)	(19,139)
Balance at 30 June 2011	127,202	(75)	66,791	63,601	17,927	20,804	2,155	216,881	114,794	-	931	459,733
Balance at 1 January 2012	127,202	(75)	66,791	63,601	17,927	22,172	73,112	289,206	114,143	-	913	531,389
Total comprehensive income for the period	-	-	-	-	-	-	6,873	6,873	451	-	11	7,335
Balance at 30 June 2012	127,202	(75)	66,791	63,601	17,927	22,172	79,985	296,079	114,594	-	924	538,724

Investment valuation reserve includes a loss of KD 2,780 thousand (31 December 2011: gain of KD 76 thousand) arising from foreign currency translation of the Parent Bank's investment in a foreign associate.

Annual general meeting of the shareholders' held on 29 April 2012 approved not to distribute cash dividend for the year 2011 (2010: 15 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 June 2012 (Unaudited)

	Note	Six months ended 30 June	
		2012 KD 000's	2011 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		456	1,544
Adjustments for:			
Impairment and other provisions	10	46,821	50,789
Income from investment securities		(2,428)	(2,591)
Foreign exchange gain on investment securities		(288)	(648)
Depreciation and amortisation		98	397
Share of results from an associate		(688)	(165)
Profit before changes in operating assets and liabilities		<u>43,971</u>	<u>49,326</u>
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		25,565	(48,318)
Due from banks and other financial institutions		(75,731)	(60,008)
Loans and advances		(3,936)	101,092
Other assets		(104)	(27,070)
Due to banks and other financial institutions		(42,632)	(19,716)
Customer deposits		7,552	19,551
Other liabilities		6,026	3,860
Net cash (used in) from operating activities		<u>(39,289)</u>	<u>18,717</u>
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		7,602	18,199
Acquisition of investment securities		(21,525)	(79,690)
Dividend income from investment securities		2,185	2,442
Proceeds from disposal of premises and equipment		36	-
Acquisition of premises and equipment		(564)	(307)
Net cash used in investing activities		<u>(12,266)</u>	<u>(59,356)</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 decrease in cash and short term funds		<u>(51,555)</u>	<u>(59,778)</u>
Cash and short term funds at 1 January		198,470	208,353
Cash and short term funds at 30 June	5	<u><u>146,915</u></u>	<u><u>148,575</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

30 June 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 30 June 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		
			30 June 2012	31 December 2011	30 June 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 30 June 2012 amounted to KD 4 thousand (30 June 2011: KD 6 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 2011 and in accordance with the instructions of the CBK.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2012 (Unaudited)

5 CASH AND SHORT TERM FUNDS

	30 June 2012	<i>(Audited)</i> 31 December 2011	30 June 2011
	KD 000's	KD 000's	KD 000's
Cash and cash items	33,038	45,512	34,242
Balances with the CBK	28,028	6,412	22,029
Deposits with banks maturing within seven days	85,849	146,546	92,304
	146,915	198,470	148,575

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

6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	30 June 2012	<i>(Audited)</i> 31 December 2011	30 June 2011
	KD 000's	KD 000's	KD 000's
Placements with banks	462,946	398,499	243,458
Loans and advances to banks	1,343	1,327	15,191
Amounts due from other financial institutions	17,431	6,163	37,757
	481,720	405,989	296,406
Less : Provision for impairment	-	-	(13,851)
	481,720	405,989	282,555

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 fair value of KD 212,575 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 gain of KD 9,397 thousand (30 June 2011: unrealised loss of KD 8,759 thousand) in the interim condensed consolidated statement of comprehensive income as arising from changes in fair value and recycled fair valuation changes of KD 344 thousand (30 June 2011: KD 246 thousand) to the interim condensed consolidated statement of income on disposal and impairment of "available for sale" investment securities.

Impairment loss of KD 16,415 thousand (30 June 2011: KD 2,120 thousand) was also charged to the interim condensed consolidated statement of income.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2012 (Unaudited)

9 INTEREST INCOME

Interest income includes a release of KD 449 thousand (30 June 2011: KD 379 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 30 June		Six months ended 30 June	
	2012 KD 000's	2011 KD 000's	2012 KD 000's	2011 KD 000's
Loans and advances - specific	(12,534)	(33,796)	(23,547)	(46,098)
Loans and advances - general	430	8,239	(1,547)	(2,950)
Investment securities	(7,814)	(1,279)	(16,415)	(2,120)
Non cash facilities	(4,901)	(630)	(5,389)	323
Other provisions	65	19	77	56
	(24,754)	(27,447)	(46,821)	(50,789)

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 30 June		Six months ended 30 June	
	2012	2011	2012	2011
Net profit for the period attributable to shareholders of the Parent Bank (KD 000's)	122	129	451	1,461
Weighted average of authorised and subscribed shares (numbers in 000's)	1,272,022	1,272,022	1,272,022	1,272,022
Less: Weighted average of treasury shares held (numbers in 000's)	(70)	(70)	(70)	(70)
	1,271,952	1,271,952	1,271,952	1,271,952
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	0.1	0.1	0.4	1.1


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2012 (Unaudited)

12 RELATED PARTY TRANSACTIONS

During the period certain related parties (directors and executives 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 June 2012			30 June 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	-	-	-	-	-	-
Credit cards	-	-	-	1	-	3
Deposits	5	-	58	7	-	65
Executive Management						
Loans	8	-	73	7	1	96
Credit cards	10	3	8	13	5	2
Deposits	13	12	476	12	20	1,736

The loans issued to directors and executive management are mainly repayable within 1 year and have interest rates ranging from 0% to 1.5% (30 June 2011: 0% to 6%).

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

	Six months ended 30 June	
	2012 KD 000's	2011 KD 000's
Key management compensation:		
Salaries and other short-term benefits	(563)	(402)
Post employment benefits	(6)	(9)
Termination benefits	(85)	(44)


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2012 (Unaudited)

13 SEGMENTAL ANALYSIS

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

- a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers.
- b) 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	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011	2012	2011
Net interest income	39,099	44,298	3,440	1,742	42,539	46,040
Non interest income	13,829	13,944	5,652	6,182	19,481	20,126
Operating income	52,928	58,242	9,092	7,924	62,020	66,166
Impairment and other provisions	(30,471)	(48,719)	(16,350)	(2,070)	(46,821)	(50,789)
Net profit / (loss) for the period	14,130	1,688	(13,680)	(156)	450	1,532
Assets	2,173,472	2,254,991	1,524,442	1,333,780	3,697,914	3,588,771
Liabilities & Equity	1,460,684	1,343,777	2,237,230	2,244,994	3,697,914	3,588,771

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

	30 June	(Audited) 31 December	30 June
	2012	2011	2011
	KD 000's	KD 000's	KD 000's
Acceptances	55,870	82,826	54,168
Letters of credit	127,493	194,571	163,814
Letters of guarantee	874,605	860,491	832,259
Others	39,194	35,953	34,690
	1,097,162	1,173,841	1,084,931


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2012 (Unaudited)

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

	30 June	<i>(Audited)</i> 31 December	30 June
	2012	2011	2011
	KD 000's	KD 000's	KD 000's
Foreign exchange contracts - forward	284,693	402,199	211,601
Option	-	3,281	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 30 June 2012 is not material to the interim condensed consolidated financial information.

(b) Fiduciary assets

The Group manages equity funds, the net asset value of which as at 30 June 2012 is KD 49,967 thousand (31 December 2011: KD 37,280 thousand and 30 June 2011: KD 50,890 thousand).

(c) Legal claims

At the reporting date certain legal claims existed against the Group for which KD 1,530 thousand (31 December 2011: KD 1,676 thousand and 30 June 2011: KD 1,809 thousand) has been provided.

15 COMPARATIVE FIGURES

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