



The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

30 September 2014 (Unaudited)



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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Commercial Bank of Kuwait K.S.C.P. ("the Bank") and its subsidiary (together called "the Group") as of 30 September 2014 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

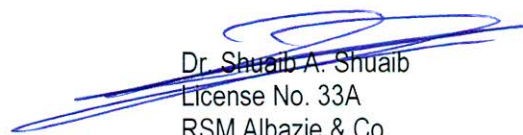
Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank, and we have not become aware of any material violations of the Companies Law No. 25 of 2012, as amended, or of the Memorandum of Incorporation and Articles of Association of the Bank have occurred during the nine month period ended 30 September 2014 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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Deloitte & Touche
Al-Wazzan & Co.

12 October 2014



Dr. Shuaib A. Shuaib
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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 September 2014 (Unaudited)

	Note	<i>(Audited)</i>		
		30 September 2014 KD 000's	31 December 2013 KD 000's	30 September 2013 KD 000's
ASSETS				
Cash and short term funds	5	443,010	436,620	352,457
Treasury and Central Bank bonds		336,183	341,297	340,717
Due from banks and other financial institutions	6	415,532	393,765	448,395
Loans and advances	7	2,339,415	2,316,998	2,281,217
Investment securities	8	298,358	355,541	384,415
Premises and equipment		28,615	26,672	24,488
Intangible assets		9,809	9,809	9,940
Other assets		22,541	48,770	44,681
TOTAL ASSETS		3,893,463	3,929,472	3,886,310
LIABILITIES AND EQUITY				
LIABILITIES				
Due to banks and other financial institutions		793,179	685,607	733,857
Customer deposits		2,404,379	2,630,451	2,545,727
Other liabilities		116,434	50,507	54,369
TOTAL LIABILITIES		3,313,992	3,366,565	3,333,953
EQUITY				
Equity attributable to shareholders of the Bank				
Share capital		141,194	127,202	127,202
Proposed bonus shares		-	13,992	-
Treasury shares		(3,881)	(4,018)	(3,249)
Reserves		299,841	299,844	304,326
Retained earnings		141,269	115,940	122,996
		578,423	552,960	551,275
Proposed dividend		-	8,864	-
		578,423	561,824	551,275
Non-controlling interests		1,048	1,083	1,082
TOTAL EQUITY		579,471	562,907	552,357
TOTAL LIABILITIES AND EQUITY		3,893,463	3,929,472	3,886,310

Ali Mousa M. Al Mousa
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 2014 (Unaudited)

	Note	Three months ended 30 September		Nine months ended 30 September	
		2014	2013	2014	2013
		KD 000's	KD 000's	KD 000's	KD 000's
Interest income	9	27,379	26,543	81,297	78,756
Interest expense		(6,567)	(5,066)	(17,993)	(14,780)
NET INTEREST INCOME		20,812	21,477	63,304	63,976
Fees and commissions		7,759	7,769	23,314	22,236
Net gain from dealing in foreign currencies		1,411	678	4,017	2,730
Net gain from investment securities		2,286	418	6,602	2,104
(Loss) gain on disposal of assets pending sale		(120)	-	613	3,214
Dividend income		269	-	1,771	1,907
Share of result from an associate		-	-	-	512
Other operating income		327	259	871	847
OPERATING INCOME		32,744	30,601	100,492	97,526
Staff expenses		(5,052)	(5,069)	(15,808)	(14,477)
General and administrative expenses		(3,533)	(3,253)	(10,523)	(9,522)
Depreciation and amortisation		(226)	(241)	(680)	(711)
OPERATING EXPENSES		(8,811)	(8,563)	(27,011)	(24,710)
OPERATING PROFIT BEFORE PROVISIONS		23,933	22,038	73,481	72,816
Impairment and other provisions	10	(11,219)	(22,013)	(46,974)	(64,656)
PROFIT BEFORE TAXATION		12,714	25	26,507	8,160
Taxation		(569)	9	(1,166)	(280)
NET PROFIT FOR THE PERIOD		12,145	34	25,341	7,880
Attributable to:					
Shareholders of the Bank		12,144	-	25,334	7,734
Non-controlling interests		1	34	7	146
		12,145	34	25,341	7,880
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	11	8.6	-	18.0	5.5

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 2014 (Unaudited)

	Three months ended 30 September		Nine months ended 30 September	
	2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's
Net profit for the period	12,145	34	25,341	7,880
OTHER COMPREHENSIVE INCOME:				
Items that will be reclassified subsequently to consolidated statement of income:				
Changes in fair value of investment securities	6,945	(3,401)	4,644	(1,306)
Net loss on disposal / impairment of investment securities	(2,131)	(497)	(3,828)	(1,418)
Share of other comprehensive gain (loss) of an associate	-	16	-	(1,829)
	4,814	(3,882)	816	(4,553)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	16,959	(3,848)	26,157	3,327
Attributable to:				
Shareholders of the Bank	16,951	(3,894)	26,147	3,175
Non-controlling interests	8	46	10	152
	16,959	(3,848)	26,157	3,327

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 2014 (Unaudited)

	KD 000's														
	Attributable to shareholders of the Bank														
	Share Capital	Proposed Bonus Shares	Treasury Shares	Reserves						Total Reserves	Retained Earnings	Proposed Dividend	Total	Non-controlling	
Share Premium				Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Investment Valuation Reserve	Interests					Total	
Balance at 1 January 2013	127,202	-	(75)	66,791	63,601	17,927	45,603	22,999	92,746	309,667	115,262	-	552,056	966	553,022
Total comprehensive (loss) income for the period	-	-	-	-	-	-	-	-	(4,559)	(4,559)	7,734	-	3,175	152	3,327
Reversal of revaluation surplus	-	-	-	-	-	-	-	(782)	-	(782)	-	-	(782)	-	(782)
Treasury shares purchased	-	-	(3,174)	-	-	-	-	-	-	-	-	-	(3,174)	-	(3,174)
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	(36)	(36)
Balance at 30 September 2013	127,202	-	(3,249)	66,791	63,601	17,927	45,603	22,217	88,187	304,326	122,996	-	551,275	1,082	552,357
Balance at 1 January 2014	127,202	13,992	(4,018)	66,791	63,601	17,927	45,603	24,530	81,392	299,844	115,940	8,864	561,824	1,083	562,907
Total comprehensive income for the period	-	-	-	-	-	-	-	-	813	813	25,334	-	26,147	10	26,157
Reversal of revaluation surplus	-	-	-	-	-	-	-	(887)	-	(887)	-	-	(887)	-	(887)
Treasury shares purchased	-	-	(901)	-	-	-	-	-	-	-	-	-	(901)	-	(901)
Treasury shares sold	-	-	1,038	-	-	-	71	-	-	71	-	-	1,109	-	1,109
Bonus shares issued	13,992	(13,992)	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(8,869)	(8,869)	(45)	(8,914)
Dividend on treasury shares sold	-	-	-	-	-	-	-	-	-	-	(5)	5	-	-	-
Balance at 30 September 2014	141,194	-	(3,881)	66,791	63,601	17,927	45,674	23,643	82,205	299,841	141,269	-	578,423	1,048	579,471

Annual General Assembly of the shareholders' held on 02 April 2014 approved to distribute cash dividend of 7 fils per share (2012: nil) and 11% bonus shares (2012: nil) for the year 2013. Subsequently the cash dividend was paid and the bonus shares increased the number of shares by 139,922,458 and share capital by KD 13,992 thousand.

Investment valuation reserve includes a loss of KD 5,448 thousand (31 December 2013: loss of KD 5,334 thousand) arising from foreign currency translation of the Bank's investment in a foreign associate.

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 2014 (Unaudited)

	Note	Nine months ended	
		30 September	
		2014	2013
		KD 000's	KD 000's
OPERATING ACTIVITIES			
Profit before taxation		26,507	8,160
Adjustments for:			
Impairment and other provisions	10	46,974	64,656
Income from investment securities		(8,373)	(4,011)
Foreign exchange (gain) on investment securities		(329)	(1,232)
Depreciation and amortisation		680	711
Share of results from an associate		-	(512)
Profit before changes in operating assets and liabilities		65,459	67,772
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		5,114	103,478
Due from banks and other financial institutions		(21,764)	(75,362)
Loans and advances		(34,265)	(206,299)
Other assets		25,317	(10,823)
Due to banks and other financial institutions		107,572	(83,437)
Customer deposits		(226,072)	288,439
Other liabilities		33,690	13,250
Net cash (used in) from operating activities		(44,949)	97,018
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		74,161	35,389
Acquisition of investment securities		(13,260)	(32,199)
Dividend income from investment securities		1,771	1,907
Proceeds from disposal of premises and equipment		37	75
Acquisition of premises and equipment		(2,664)	(288)
Net cash from investing activities		60,045	4,884
FINANCING ACTIVITIES			
Purchase of treasury shares		(901)	(3,174)
Proceeds from sale of treasury shares		1,109	-
Dividends paid		(8,869)	-
Dividend paid to non controlling interest		(45)	(36)
Net cash used in financing activities		(8,706)	(3,210)
Net increase in cash and short term funds		6,390	98,692
Cash and short term funds at 1 January		436,620	253,765
Cash and short term funds at 30 September	5	443,010	352,457

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



1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait K.S.C.P ("the 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 Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

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

The interim condensed consolidated financial information of the Group were authorised for issue in accordance with a resolution of the Board of Directors on 12 October 2014.

The new Companies Law issued on 26 November 2012 by Decree Law No. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law No. 97 of 2013 (the Decree).

The Executive Regulations of the new amended law was issued on 29 September 2013 and was published in the official Gazette on 6 October 2013. As per article three of the executive regulations, the companies have one year from the date of publishing the executive regulations to comply with the new amended law.

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 2013 except for the adoption of the following new and amended standards issued and effective during the period:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014, and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group, as none of the entities in the Group qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments Presentation: Offsetting Financial Assets and Financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014 and clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendment has not resulted in any impact on the interim condensed consolidated financial position or performance of the Group.

IAS 36: Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. These amendments have not resulted in any additional disclosures currently, the same would continue to be considered for future disclosures.

IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. These amendments have not resulted in any impact on the interim condensed consolidated financial position or performance of the Group.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (Unaudited)

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 2014 are not necessarily indicative of the results that may be expected for the year ending 31 December 2014. For further information, refer to the consolidated financial statements included in the Group's annual report for the year ended 31 December 2013.

3 SUBSIDIARY

Name of entity	Country of incorporation	Principal activities	% of ownership		
			30 September 2014	31 December 2013	30 September 2013
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage Services	80	80	80

Based on the approval from the Capital Markets Authority as on 7 January 2013 and the Ministry of Commerce as on 17 January 2013, the Bank has appointed a liquidator to liquidate "Al Tijari Investment Company K.S.C (Closed)". Accordingly, the net assets of the former subsidiary amounting to KD nil (31 December 2013: KD 3,149 thousand and 30 September 2013 KD 3,152 thousand) have been treated as non-current assets held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" and classified under other assets.

4 PROVISIONS NO LONGER REQUIRED

Under the terms of Law 41/93, provision no longer required as at 30 September 2014 amounted to KD 11 thousand (30 September 2013: KD 8 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 2013 and in accordance with the instructions of the CBK.

5 CASH AND SHORT TERM FUNDS

	<i>(Audited)</i>		
	30 September 2014 KD 000's	31 December 2013 KD 000's	30 September 2013 KD 000's
Cash and cash items	99,489	65,789	52,723
Balances with the CBK	11,249	36,469	30,666
Deposits with banks maturing within seven days	332,272	334,362	269,068
	443,010	436,620	352,457

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


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (Unaudited)

6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>(Audited)</i>		
	30 September 2014	31 December 2013	30 September 2013
	KD 000's	KD 000's	KD 000's
Placements with banks	398,450	393,765	448,395
Loans and advances to banks	7,254	-	-
Amounts due from other financial institutions	10,000	-	-
	415,704	393,765	448,395
Less : Provision for impairment	(172)	-	-
	415,532	393,765	448,395

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".

During the year 2013, the Ministry of Finance established the Family Support Fund (the "Fund") under Law No. 104/2013 to purchase outstanding balance of installment and consumer loans from the Banks as on 12 June 2013 for loans granted before 30 March 2008. Accordingly, CBK issued a Circular no. 2/BS,IS/305/2013 to all local banks and investment companies regarding formation of the Fund. The Bank has identified such loans amounted to KD 38,818 thousand and submitted report to CBK for approval, as required by the circular. Interest income on such loans is not recognised from 12 June 2013. At the reporting date, loans amounted to KD 17,371 thousand have been settled.

8 INVESTMENT SECURITIES

During the period, the Group recognised an unrealised gain of KD 4,644 thousand (30 September 2013: unrealised loss of KD 1,306 thousand) in the interim condensed consolidated statement of comprehensive income as arising from changes in fair value and re-cycled fair valuation changes of KD 3,828 thousand (30 September 2013: KD 1,418 thousand) to the interim condensed consolidated statement of income on disposal and impairment of "available for sale" investment securities.

Impairment loss of KD 3,956 thousand (30 September 2013: KD 8,112 thousand) was charged to the interim condensed consolidated statement of income.

The Bank acquired 221,425,059 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 buyback option within the agreed time frame. During 2010, the Bank participated in the rights issue and acquired 127,058,530 shares at a cost of KD 32,401 thousand. During 2013 and 2014, the Bank received 17,424,179 and 25,613,543 bonus shares respectively. The counterparty raised a legal case challenging the Bank's ownership that is currently pending at the court of law. On the basis of an interim order of the court, there is a restriction on the sale of 248,771,054 shares. The Bank has sold shares from the remaining lot and as at the reporting date, the Bank holds title for 382,766,598 shares carried at a fair value of KD 195,211 thousand (31 December 2013: 365,907,768 shares KD 204,908 thousand and 30 September 2013: 348,483,589 shares KD 209,090 thousand). On the basis of legal counsel, management believes that they have a meritorious defense and accordingly, the Bank has fair valued the investment and recognized the resultant fair valuation gain in the Investment Valuation Reserve.

9 INTEREST INCOME

Interest income includes a release of KD 224 thousand (30 September 2013: KD 183 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.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (Unaudited)

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 September		Nine months ended 30 September	
	2014 KD 000's	2013 KD 000's	2014 KD 000's	2013 KD 000's
Loans and advances - specific	(3,052)	(22,980)	(14,383)	(59,959)
Loans and advances - recoveries	14,587	6,511	18,155	8,556
Loans and advances - general	(12,486)	(9)	(15,617)	(1,412)
Investment securities	-	(3,100)	(3,956)	(8,112)
Non cash facilities	(232)	(377)	(497)	(670)
Other provisions	(10,036)	(2,058)	(30,676)	(3,059)
	(11,219)	(22,013)	(46,974)	(64,656)

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 Bank by the weighted average number of shares outstanding during the period.

	Three months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013
Net profit for the period attributable to shareholders of the Bank (KD 000's)	12,144	-	25,334	7,734
Weighted average of authorised and subscribed shares (numbers in 000's)	1,411,945	1,411,945	1,411,945	1,411,945
Less: Weighted average of treasury shares held (numbers in 000's)	(6,160)	(4,528)	(6,048)	(2,646)
	1,405,785	1,407,417	1,405,897	1,409,299
Basic and diluted earnings per share attributable to shareholders of the Bank (fils)	8.6	-	18.0	5.5

Basic and diluted earnings per share for the current and comparative period presented have been adjusted to reflect the effect of bonus shares issued subsequent to the reporting date.


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (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. The terms of these transactions are approved by the Group's management. The balances at the date of interim condensed consolidated financial position are as follows:

	30 September 2014			30 September 2013		
	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	4	-	16	2	-	9
Deposits	9	-	181	10	-	66
Executive Management						
Loans	8	-	90	7	-	113
Credit cards	9	2	13	9	3	16
Deposits	13	2	321	14	10	672

The loans issued to directors, key management personnel and related members are repayable within 1 year and have interest rates of 0% (30 September 2013: 0%).

The detail of compensation for key management included in the interim condensed consolidated statement of income are as follows:

	Nine months ended 30 September	
	2014 KD 000's	2013 KD 000's
Salaries and other short-term benefits	(764)	(1,246)
Post employment benefits	(4)	(7)
End of service benefits	(74)	(152)

13 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and variable rate financial instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

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


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (Unaudited)

The method and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

		30 September 2014			
		KD 000's			
Financial Instruments		Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of income:					
Derivative Financial Instruments:					
Forward Foreign Exchange Contracts		445,042	-	-	445,042
Financial assets available for sale:					
Equity securities		228,899	34,510	-	263,409
Debt securities		7,764	25,058	-	32,822
Others		-	2,127	-	2,127
		236,663	61,695	-	298,358
31 December 2013 (Audited)					
KD 000's					
Financial Instruments		Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of income:					
Derivative Financial Instruments:					
Forward Foreign Exchange Contracts		614,652	-	-	614,652
Financial assets available for sale:					
Equity securities		268,793	35,985	-	304,778
Debt securities		23,764	24,859	-	48,623
Others		-	2,140	-	2,140
		292,557	62,984	-	355,541
30 September 2013					
KD 000's					
Financial Instruments		Level 1	Level 2	Level 3	Total
Financial assets at fair value through statement of income:					
Derivative Financial Instruments:					
Forward Foreign Exchange Contracts		615,840	-	-	615,840
Financial assets available for sale:					
Equity securities		287,370	35,768	-	323,138
Debt securities		20,445	38,300	-	58,745
Others		-	2,532	-	2,532
		307,815	76,600	-	384,415

There were no transfers between level 1, level 2 and level 3 hierarchy.

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

30 September 2014 (Unaudited)

14 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	
	Nine months ended 30 September		Nine months ended 30 September		Nine months ended 30 September	
	2014	2013	2014	2013	2014	2013
Net interest income	57,169	58,117	6,135	5,859	63,304	63,976
Non interest income	24,329	24,974	12,859	8,576	37,188	33,550
Operating income	81,498	83,091	18,994	14,435	100,492	97,526
Impairment and other provisions	(12,270)	(54,520)	(34,704)	(10,136)	(46,974)	(64,656)
Net profit (loss) for the period	54,092	14,851	(28,751)	(6,971)	25,341	7,880
Assets	2,386,520	2,284,870	1,506,943	1,601,440	3,893,463	3,886,310
Liabilities & Equity	1,604,628	1,546,195	2,288,835	2,340,115	3,893,463	3,886,310

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

	(Audited)		
	30 September 2014 KD 000's	31 December 2013 KD 000's	30 September 2013 KD 000's
Acceptances	64,990	56,243	34,632
Letters of credit	151,675	139,609	164,640
Letters of guarantee	950,782	869,308	860,783
Others	34,660	34,753	35,736
	1,202,107	1,099,913	1,095,791



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 September 2014 (Unaudited)

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

	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
30 September 2014			
Foreign exchange contracts - forward	976	16,562	445,042
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
31 December 2013 (Audited)			
Foreign exchange contracts - forward	8,346	1,617	614,652
	KD 000's		
	Positive Fair Value	Negative Fair Value	Notional Amount
30 September 2013			
Foreign exchange contracts - forward	17,175	1,314	615,840

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

(b) Legal claims

At the reporting date certain legal claims existed against the Group for which KD 2,139 thousand (31 December 2013: KD 2,037 thousand and 30 September 2013: KD 2,014 thousand) have been provided.