



The Commercial Bank of Kuwait Group

Interim Condensed Consolidated Financial Information

31 March 2014



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 31 March 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity, and cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of presentation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared in all material respects in accordance with the basis of presentation set out in Note 2.

Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the 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 three month period ended 31 March 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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License No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
04 May 2014

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



The Commercial Bank of Kuwait Group

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 March 2014 (Unaudited)

| | | (Audited) | |
|--|------|------------------------------|---------------------------------|
| | Note | 31 March 2014 KD 000's | 31 December 2013 KD 000's |
| | | | 31 March 2013 KD 000's |
| ASSETS | | | |
| Cash and short term funds | 5 | 543,492 | 436,620 |
| Treasury and Central Bank bonds | | 334,725 | 341,297 |
| Due from banks and other financial institutions | 6 | 334,431 | 393,765 |
| Loans and advances | 7 | 2,322,162 | 2,316,998 |
| Investment securities | 8 | 328,088 | 355,541 |
| Investment in an associate | | - | - |
| Premises and equipment | | 28,466 | 26,672 |
| Intangible assets | | 9,809 | 9,809 |
| Other assets | | 14,096 | 48,049 |
| TOTAL ASSETS | | 3,915,269 | 3,929,472 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to banks and other financial institutions | | 675,896 | 685,607 |
| Customer deposits | | 2,597,490 | 2,630,451 |
| Other liabilities | | 69,633 | 55,173 |
| TOTAL LIABILITIES | | 3,343,019 | 3,366,565 |
| EQUITY | | | |
| Equity attributable to shareholders of the Bank | | | |
| Share capital | | 127,202 | 127,202 |
| Proposed bonus shares | | 13,992 | 13,992 |
| Treasury shares | | (3,541) | (4,018) |
| Reserves | | 303,296 | 299,844 |
| Retained earnings | | 121,355 | 115,940 |
| Proposed dividend | | 8,864 | 8,864 |
| Non-controlling interests | | 1,082 | 1,083 |
| TOTAL EQUITY | | 572,250 | 562,907 |
| TOTAL LIABILITIES AND EQUITY | | 3,915,269 | 3,929,472 |


 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 31 March 2014 (Unaudited)

| | Note | Three months ended 31 March | |
|--|------|--------------------------------|------------------|
| | | 2014 KD 000's | 2013 KD 000's |
| Interest income | 9 | 26,503 | 25,809 |
| Interest expense | | (5,273) | (4,863) |
| NET INTEREST INCOME | | 21,230 | 20,946 |
| Fees and commissions | | 7,358 | 6,647 |
| Net gain from dealing in foreign currencies | | 1,261 | 996 |
| Net gain (loss) from investment securities | | 2,192 | (256) |
| Gain on disposal of assets pending sale | | 33 | 1,989 |
| Dividend income | | 1,236 | 1,271 |
| Share of result from an associate | | - | 218 |
| Other operating income | | 263 | 324 |
| OPERATING INCOME | | 33,573 | 32,135 |
| Staff expenses | | (5,236) | (4,230) |
| General and administrative expenses | | (3,526) | (2,941) |
| Depreciation and amortisation | | (240) | (223) |
| OPERATING EXPENSES | | (9,002) | (7,394) |
| OPERATING PROFIT BEFORE PROVISIONS | | 24,571 | 24,741 |
| Impairment and other provisions | 10 | (18,920) | (23,934) |
| PROFIT BEFORE TAXATION | | 5,651 | 807 |
| Taxation | | (235) | (7) |
| NET PROFIT FOR THE PERIOD | | 5,416 | 800 |
| Attributable to: | | | |
| Shareholders of the Bank | | 5,415 | 769 |
| Non-controlling interests | | 1 | 31 |
| | | 5,416 | 800 |
| Basic and diluted earnings per share attributable to shareholders of the Bank (fils) | 11 | 3.9 | 0.5 |

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 31 March 2014 (Unaudited)

| | Three months ended | |
|---|--------------------|--------------|
| | 31 March | |
| | 2014 | 2013 |
| | KD 000's | KD 000's |
| Net profit for the period | 5,416 | 800 |
| OTHER COMPREHENSIVE INCOME: | | |
| Items that will be reclassified subsequently to consolidated statement of income: | | |
| Changes in fair value of investment securities | 3,202 | 3,673 |
| Net gain on disposal / impairment of investment securities | 203 | 638 |
| Share of other comprehensive loss of an associate | - | (1,058) |
| | 3,405 | 3,253 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 8,821 | 4,053 |
| Attributable to: | | |
| Shareholders of the Bank | 8,822 | 4,025 |
| Non-controlling interests | (1) | 28 |
| | 8,821 | 4,053 |

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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Period ended 31 March 2014 (Unaudited)

| | KD 000's | | | | | | | | | | | | | | |
|---|--|-----------------------------|--------------------|------------------|----------------------|--------------------|------------------------------------|------------------------------------|-------------------|----------------|----------------------|----------------------|----------------|--------------|------------------------------|
| | Attributable to shareholders of the Bank | | | | | | | | | | | | | | Non-controlling Interests |
| | Share Capital | Proposed Bonus Shares | Treasury Shares | Share Premium | Statutory Reserve | General Reserve | Reserves | | | | Retained Earnings | Proposed Dividend | Total | Total | |
| Treasury Shares Reserve | | | | | | | Property Revaluation Reserve | Investment Valuation Reserve | Total Reserves | | | | | | |
| 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 income for the period | - | - | - | - | - | - | - | - | 3,256 | 3,256 | 769 | - | 4,025 | 28 | 4,053 |
| Reversal of revaluation surplus | - | - | - | - | - | - | - | (782) | - | (782) | - | - | (782) | - | (782) |
| Treasury shares purchased | - | - | (128) | - | - | - | - | - | - | - | - | - | (128) | - | (128) |
| Balance at 31 March 2013 | 127,202 | - | (203) | 66,791 | 63,601 | 17,927 | 45,603 | 22,217 | 96,002 | 312,141 | 116,031 | - | 555,171 | 994 | 556,165 |
| 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 (loss) income for the period | - | - | - | - | - | - | - | - | 3,407 | 3,407 | 5,415 | - | 8,822 | (1) | 8,821 |
| Treasury shares purchased | - | - | (328) | - | - | - | - | - | - | - | - | - | (328) | - | (328) |
| Treasury shares Sale | - | - | 805 | - | - | - | 45 | - | - | 45 | - | - | 850 | - | 850 |
| Balance at 31 March 2014 | 127,202 | 13,992 | (3,541) | 66,791 | 63,601 | 17,927 | 45,648 | 24,530 | 84,799 | 303,296 | 121,355 | 8,864 | 571,168 | 1,082 | 572,250 |

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. Subsequent to the period ended 31 March 2014, the Bank has completed the registration procedures for the issuance of bonus shares and accordingly notified the Kuwait Stock Exchange to adjust the authorized, subscribed and fully paid up share capital to 1,411,945 thousand shares of 100 fils each.

Investment valuation reserve includes a loss of KD 5,327 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 31 March 2014 (Unaudited)

| | Note | Three months ended | |
|---|------|--------------------|----------------|
| | | 31 March | |
| | | 2014 | 2013 |
| | | KD 000's | KD 000's |
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | 5,651 | 807 |
| Adjustments for: | | | |
| Impairment and other provisions | 10 | 18,920 | 23,934 |
| Income from investment securities | | (3,428) | (1,015) |
| Foreign exchange gain on investment securities | | (494) | (896) |
| Depreciation and amortisation | | 240 | 223 |
| Share of results from an associate | | - | (218) |
| Profit before changes in operating assets and liabilities | | 20,889 | 22,835 |
| Changes in operating assets and liabilities: | | | |
| Treasury and Central Bank bonds | | 6,572 | 25,683 |
| Due from banks and other financial institutions | | 59,334 | (59,916) |
| Loans and advances | | (6,706) | (84,810) |
| Other assets | | 34,664 | (12,719) |
| Due to banks and other financial institutions | | (9,711) | 6,385 |
| Customer deposits | | (32,961) | 140,082 |
| Other liabilities | | 4,924 | 8,384 |
| Net cash from operating activities | | 77,005 | 45,924 |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposal of investment securities | | 34,375 | 8,415 |
| Acquisition of investment securities | | (4,187) | (7,401) |
| Dividend income from investment securities | | 1,236 | 1,271 |
| Proceeds from disposal of premises and equipment | | 31 | 44 |
| Acquisition of premises and equipment | | (2,065) | (109) |
| Net cash from investing activities | | 29,390 | 2,220 |
| FINANCING ACTIVITIES | | | |
| Purchase of treasury shares | | (328) | (128) |
| Proceeds from sale of treasury shares | | 805 | - |
| Net cash from (used in) financing activities | | 477 | (128) |
| Net increase in cash and short term funds | | 106,872 | 48,016 |
| Cash and short term funds at 1 January | | 436,620 | 253,765 |
| Cash and short term funds at 31 March | 5 | 543,492 | 301,781 |

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 04 May 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 year:

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

31 March 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 31 March 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 SUBSIDIARIES

| Name of entity | Country of incorporation | Principal activities | % of ownership | | |
|---|--------------------------|----------------------|----------------|------------------|---------------|
| | | | 31 March 2014 | 31 December 2013 | 31 March 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 3,152 thousand (31 December 2013: KD 3,149 thousand and 31 March 2013: KD 16,152 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 31 March 2014 amounted to KD 5 thousand (31 March 2013: KD 5 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> | | |
|--|------------------|------------------|---------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | KD 000's | KD 000's | KD 000's |
| Cash and cash items | 70,431 | 65,789 | 53,966 |
| Balances with the CBK | 49,170 | 36,469 | 64,232 |
| Deposits with banks maturing within seven days | 423,891 | 334,362 | 183,583 |
| | 543,492 | 436,620 | 301,781 |

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


NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 2014 (Unaudited)

6 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

| | 31 March 2014 KD 000's | <i>(Audited)</i> 31 December 2013 KD 000's | 31 March 2013 KD 000's |
|---|---------------------------------------|---|------------------------------|
| Placements with banks | 320,931 | 393,765 | 423,991 |
| Loans and advances to banks | - | - | 1,353 |
| Amounts due from other financial institutions | 13,500 | - | 7,605 |
| | 334,431 | 393,765 | 432,949 |

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 41,878 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.

8 INVESTMENT SECURITIES

During the period, the Group recognised an unrealised gain of KD 3,202 thousand (31 March 2013: KD 3,673 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 203 thousand (31 March 2013: KD 638 thousand) to the interim condensed consolidated statement of income on disposal and impairment of "available for sale" investment securities.

Impairment loss of KD 3,343 thousand (31 March 2013: KD 5,012 thousand) was charged to the interim condensed consolidated statement of income.

Investment securities include 391,521,311 shares carried at a fair value of KD 199,676 thousand (31 December 2013: KD 204,908 thousand and 31 March 2013: KD 219,545 thousand). The 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 Bank participated in the rights issue and acquired 127,062,494 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. As at the reporting date, the Bank holds the title of the underlying shares. The counterparty raised a legal case challenging the 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 and accordingly the Bank has fair valued the investment and recognised the resultant fair valuation gain in the Investment Valuation Reserve.

9 INTEREST INCOME

Interest income includes a release of KD 65 thousand (31 March 2013: KD 81 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

31 March 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 31 March | |
|-------------------------------|--------------------------------|------------------|
| | 2014 KD 000's | 2013 KD 000's |
| Loans and advances - specific | (1,380) | (17,201) |
| Loans and advances - general | (162) | (468) |
| Investment securities | (3,343) | (5,012) |
| Non cash facilities | 46 | (275) |
| Other provisions | (14,081) | (978) |
| | (18,920) | (23,934) |

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 31 March | |
|--|--------------------------------|-----------|
| | 2014 | 2013 |
| Net profit for the period attributable to shareholders of the Bank (KD 000's) | 5,415 | 769 |
| Weighted average of authorised and subscribed shares (numbers in 000's) | 1,411,945 | 1,411,945 |
| Less: Weighted average of treasury shares held (numbers in 000's) | (6,119) | (664) |
| | 1,405,826 | 1,411,281 |
| Basic and diluted earnings per share attributable to shareholders of the Bank (fils) | 3.9 | 0.5 |

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**

31 March 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:

| | 31 March 2014 | | | 31 March 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 | - | - | - | - | - | - |
| Deposits | 10 | - | 114 | 6 | - | 103 |
| Executive Management | | | | | | |
| Loans | 8 | - | 125 | 8 | - | 115 |
| Credit cards | 4 | 9 | 15 | 8 | 2 | 15 |
| Deposits | 13 | 9 | 591 | 15 | 11 | 2,007 |

The loans issued to directors, key management personnel and related members are repayable within 1 year and have interest rates of 0% (31 March 2013: 0%).

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

| | Three months ended 31 March | |
|--|--------------------------------|------------------|
| | 2014 KD 000's | 2013 KD 000's |
| Salaries and other short-term benefits | (291) | (423) |
| Post employment benefits | (2) | (3) |
| End of service benefits | (31) | (84) |

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**

31 March 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:

| | | 31 March 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 | | 445,626 | - | - | 445,626 |
| Financial assets available for sale: | | | | | |
| Equity securities | | 246,277 | 35,924 | - | 282,201 |
| Debt securities | | 18,665 | 25,084 | - | 43,749 |
| Others | | - | 2,138 | - | 2,138 |
| | | 264,942 | 63,146 | - | 328,088 |
| 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 |
| 31 March 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 | | 441,413 | - | - | 441,413 |
| Financial assets available for sale: | | | | | |
| Equity securities | | 294,061 | 38,412 | - | 332,473 |
| Debt securities | | 36,470 | 27,578 | - | 64,048 |
| Others | | - | 2,546 | - | 2,546 |
| | | 330,531 | 68,536 | - | 399,067 |

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

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

31 March 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 | |
| | Three months ended 31 March | | Three months ended 31 March | | Three months ended 31 March | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Net interest income | 19,186 | 19,017 | 2,044 | 1,929 | 21,230 | 20,946 |
| Non interest income | 7,477 | 8,602 | 4,866 | 2,587 | 12,343 | 11,189 |
| Operating income | 26,663 | 27,619 | 6,910 | 4,516 | 33,573 | 32,135 |
| Impairment and other provisions | (1,610) | (17,506) | (17,310) | (6,428) | (18,920) | (23,934) |
| Net profit (loss) for the period | 19,990 | 5,890 | (14,574) | (5,090) | 5,416 | 800 |
| Assets | 2,331,969 | 2,201,434 | 1,583,300 | 1,630,953 | 3,915,269 | 3,832,387 |
| Liabilities & Equity | 1,665,379 | 1,467,729 | 2,249,890 | 2,364,658 | 3,915,269 | 3,832,387 |

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) | | |
|----------------------|------------------|---------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | KD 000's | KD 000's | KD 000's |
| Acceptances | 30,179 | 56,243 | 22,879 |
| Letters of credit | 145,336 | 139,609 | 146,661 |
| Letters of guarantee | 869,329 | 869,308 | 910,105 |
| Others | 34,809 | 34,753 | 35,044 |
| | 1,079,653 | 1,099,913 | 1,114,689 |



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

31 March 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 |
| 31 March 2014 | | | |
| Foreign exchange contracts - forward | 3,302 | 1,345 | 445,626 |
| | | | |
| | 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 |
| 31 March 2013 | | | |
| Foreign exchange contracts - forward | 349 | 7,318 | 441,413 |

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 2,037 thousand (31 December 2013: KD 2,037 thousand and 31 March 2013: KD 2,643 thousand) have been provided.