Board of Directors

Abdul Majeed Haji Al Shatti
Chairman & Managing Director

Abdul Razzak Khaled Al Wazzan
Deputy Chairman

Abdul Fatah Mohammed Rafee Marafie
Member

Sadek Ibrahim Marafie
Member

****Ahmad Mohammed Al-Mishari**
Member

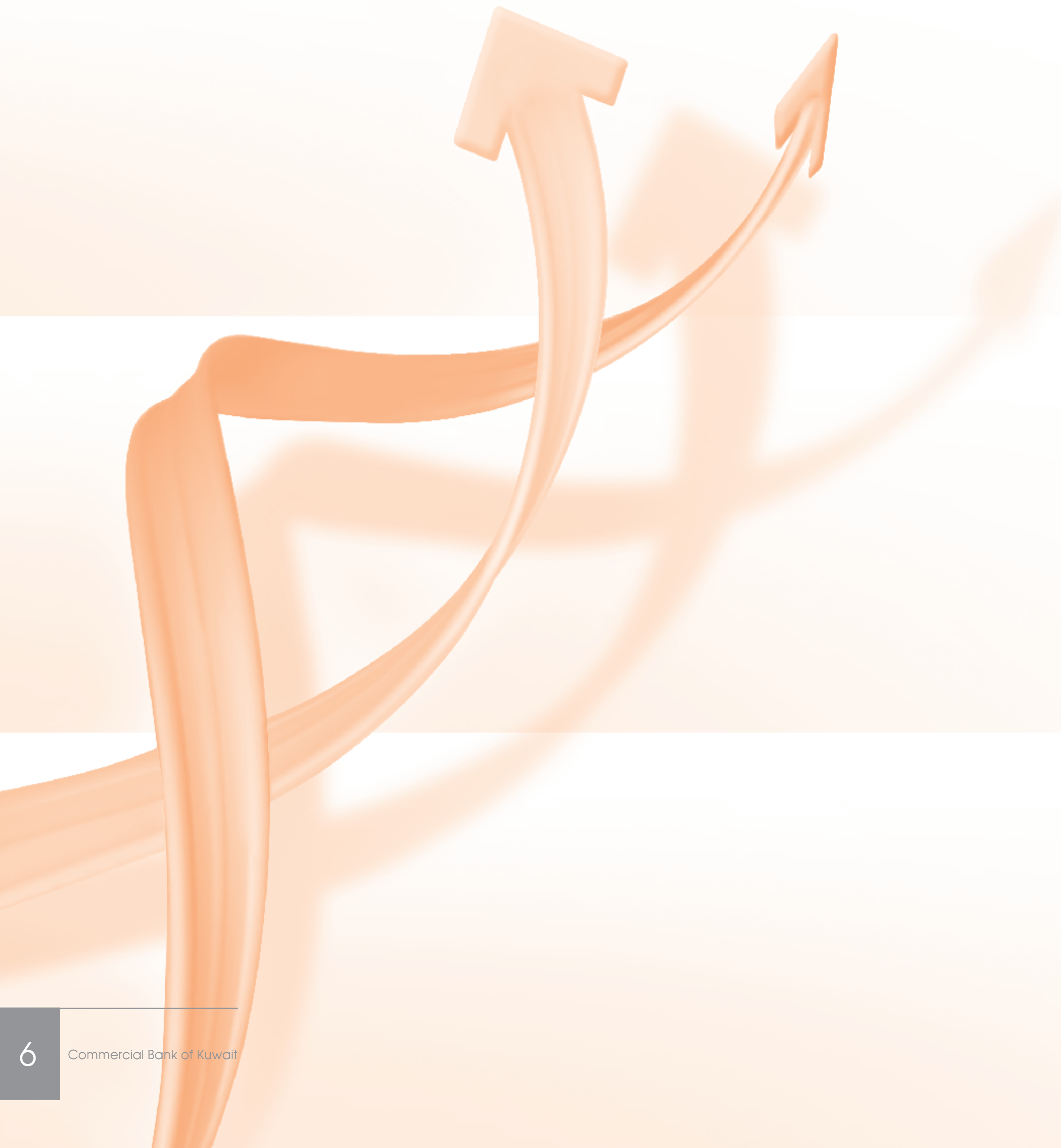
***Fouad Ismail Dashti**
Member

Khaled Ibrahim Al-Raqum
Member

Fowzi Abdul Mohsen Al-Ateeqi
Secretary to the Board and GM of Investments

* Resigned on 14 December 2009
** Resigned on 23 December 2009

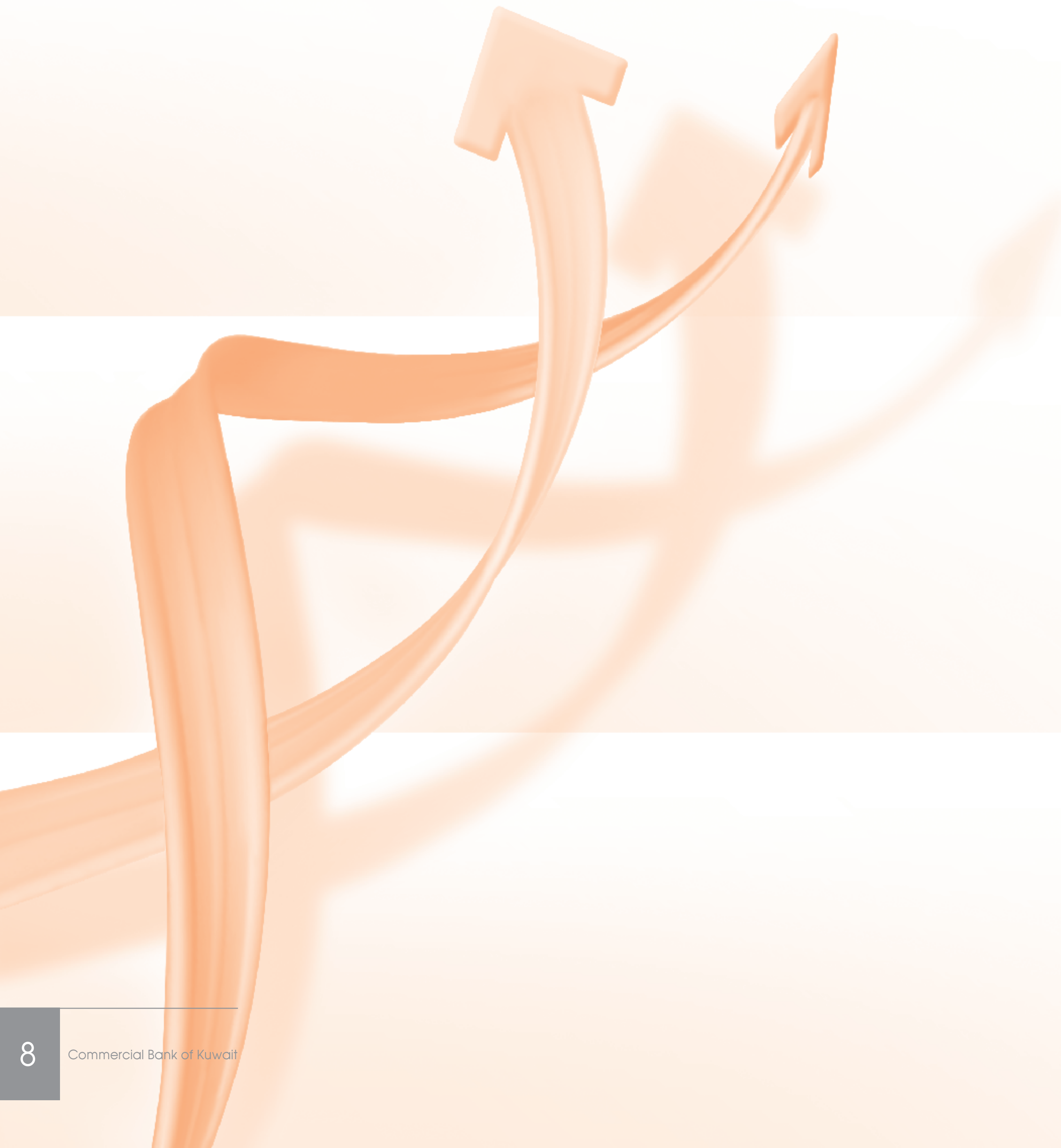
Introduction



Al-Tijari... My Choice

Fallout from the global economic crisis and the strains of switching to a new core banking computer system made 2009 an especially challenging year for the Commercial Bank of Kuwait. However, its dedicated staff and management succeeded in maintaining the Bank's ranking as the second most highly rated in the country, its excellent operating efficiency and its strong capital base.

Chairman & Managing Director's Message



Dear Shareholders,

On behalf of the Board of Directors, I would like to extend my deepest thanks for your continuous support to the Bank, and it is my pleasure to present a summary of the Commercial Bank of Kuwait's performance and major achievements.

Commercial Bank of Kuwait …… 50 years of success and growth.

In June 2010 your Bank will be celebrating its 50th anniversary, with the Amiri Decree establishing the Commercial Bank of Kuwait having been issued on 19th June 1960. During the past 50 years the Bank has witnessed significant developments in all banking & operational areas. The previous decade (2000 – 2009) has particularly been a landmark in Commercial Bank of Kuwait's history with the Bank ranked as the second highest rated financial institution in Kuwait on the back of its strong capital base and strong franchise along with its revenue generating capabilities.

The past ten years have seen an increase in shareholders' funds from KD 183 million in 2000 to KD 440 million in 2009. Assets also increased from KD 1.5 billion in 2000 to KD 3.6 billion in 2009, operating income increased from KD 54 million in 2000 to approximately KD 158 million in 2009. Similarly, the share price was 250 fils in year 2000 and closed on 930 fils per share at the end of December 2009 and was as high as KD 1.5 per share in 2007. As regarding the net profit of the Bank it was KD 30 million in 2000, increasing to KD 120 million in 2007 and to KD 100 million in 2008. Had the global financial crisis not occurred and the Bank not been required to build up additional provisions for improving its loan books, your Bank would have been able to continue recording net profits for 2009 at acceptable levels.

To increase the Bank's competitive edge, we have invested highly in our people and the percentage of national manpower in the Bank reached 60%. We continued also upgrading and developing technology platforms to provide international best practices. Further, our investment in our branch network continued with the number of branches increasing from 28 branches in 2000 to 55 branches in 2009 providing the Bank with the second largest branch network in Kuwait and helping the Bank to further strengthen its franchise in Kuwait.

Our achievements over the past period are a clear demonstration of the sound business strategies the management has adopted even in difficult times. All these achievements would have not been realized without the dedication, loyalty and hard work of all staff members and the executive management team whose efforts helped in maintaining the Bank's position among top ranked banks. As such we have ended 2009 with your Bank maintaining the second highest rating among Kuwaiti banks on the back of its strong capital base and with a capital adequacy ratio of 18.22% at 31st December 2009.

Commercial Bank of Kuwait – Sustained Performance in Challenging Times

The year 2009 was a difficult year for the banking industry, being strongly affected by the negative aftermath of the global financial turmoil which was at its peak in the first quarter of 2009. Add to this is the absence of political stability in Kuwait with the dissolution of National Assembly leading to a new election. There can be no doubt that all these factors have collectively had negative implications for the banking sector and its customers as well. However, to limit and weather such a critical and sensitive period, the Bank has adopted a conservative policy that placed a high emphasis on maintaining shareholders' funds and enhancing the Bank's capital base.

Despite the challenging business environment, Operating Income Reached KD 157.3 million.

The Bank's profit before provisions was KD 130.9 million, and after the Board of Directors allocated provisions against the loan and investment portfolios, the net profit was KD 0.15 million with earnings per share of 0.1 fils.

Expenses were down on last year leading to a very efficient cost to income ratio of 16.74%. Gross Loans and advances increased by 2.8% or KD 74.0 million through selective lending, mainly to corporate clients. Total assets were KD 3.6 billion and total shareholder funds were KD 439.9 million at the end of 2009.

Strong Capital Base: despite the negative impact the financial crisis left on the national economy and the banking industry, your Bank was able to limit the repercussions and to proceed with building up a strong capital base that will further enhance the Bank's competitive advantage and allow us to absorb any future defaults.

At year end, the Bank had a total of KD 285.5 million of loan provisions with KD 210.5 million of specific provisions and KD 75.0 million of general provisions. Included in the general provision was KD 42.6 million that the Bank has accumulated over and above regulatory requirements. The Bank has built this prudent cushion over the years against any future impact of the global financial crisis. We see difficult times ahead and the future effects of the downturn on Kuwait's economy are difficult to predict. These extra provisions will also help the Bank to do business safely and hedge against any fallout from the meltdown.

In addition to the extra general provisions, the Bank has approximately KD 91.9 million of retained earnings as at 2009. This further enhances shareholders' funds which stood at approximately KD 440 million.

The Bank also has a strong capital base with a capital adequacy ratio of 18.22%, which comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

The Bank has conducted stress tests for the quarters ending on March, June and September 2009 and for the year ending on 31st December 2009. The stress tests were reviewed by an international independent consultant and confirm the Bank's strong capital base even under severe stress scenarios.

The Board of Directors has, with the assistance of a leading global management consulting firm, worked to develop a five-year strategic plan to maintain your Bank as a top tier bank in Kuwait.

Review of 2009

The Bank continued to invest in its branch network, IT systems and people. With 55 conveniently located branches, Commercial Bank of Kuwait maintained the second largest branch network in the country. During 2009, the Bank opened two new branches in Dasma and Hadiya and renovated branches in Khaitan and Sharq. New locations have been secured for more branches to be opened in 2010. The Bank provided state-of-the-art banking products and services specifically tailored to cater for all customer needs.

Our customer service offerings have become more focused as our segmentation targeted their needs more accurately. The Bank collaborated with a major insurance company to offer a wide range of
insurance products.

Corporate Banking Division continued to expand its portfolio of credit facilities particularly in the productive and dynamic economic sectors by adopting a prudent credit policy.

The Bank's subsidiaries, Union Securities Brokerage Company and Al Tijari Investment Co. continued to expand services in 2009. USBC opened additional branches and trading desks to offer brokerage services. CBK Capital took over the management of the Tijari equity funds and will soon introduce portfolio management services for the Bank's valued customers.

Treasury pressed ahead in fulfilling corporate clients' basic cash management and foreign exchange requirements efficiently and effectively by improving technical methods to assist in offering the best services to customers.

International Banking Division continued to safeguard and protect the Bank from the negative effects of the financial crisis. It reviewed all international banking relationships to help mitigate the Bank's international risk exposures.

The Operations group supported the business groups by improving the quality of customer service.

The Bank has started the implementation of its Integrated Computerized Banking System (ICBS) which will contribute to increased productivity, increase competitive advantage and add further improvements to customer services.

Our Team

Banking is about relationships and our ability to expand and grow depends largely on our people. The Bank exerted all effort to attract, train, motivate and retain skilled and experienced people. As a preferred employer for Kuwaiti graduates, Commercial Bank of Kuwait continued its efforts in offering excellent job opportunities to fresh graduates. During 2009, the Bank recruited 230 Kuwaitis, bringing up the percentage of Kuwaiti employees to over 60% of the Bank's total manpower, and exceeding the government's Kuwaitisation regulations.

Corporate Social Responsibility

Corporate social responsibility has been one of the Bank's priorities since its establishment in 1960. Commercial Bank of Kuwait has followed a balanced strategy of devoting efforts and resources to serve society, participate in its development, provide employment and training opportunities for Kuwaitis, and protect the environment.

The Bank has demonstrated this commitment by generous donations to social care centres and contributions to social functions, awareness campaigns, educational and cultural events and sports activities. The Bank has been a prominent participant and promoter of conferences and seminars organized in Kuwait and abroad, presenting research papers in these meetings.

Our Valued Shareholders

The global economic downturn has affected Kuwait, and we see the need for prudent, conservative banking to protect shareholder value and assist our customers in weathering the storm.

The Bank has a clear mission statement: To demonstrate excellence in all fields, including leadership, innovation, commitment and corporate citizenship. We will stay true to these principles and will continue to prosper.

Appreciation

In conclusion, and on behalf of the Board of Directors, I wish to express sincere gratitude and appreciation to His Highness the Amir Sheikh Sabah Al-Ahmed Al-Sabah, His Highness the Crown Prince Sheik Nawaf Al-Ahmed Al-Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al-Sabah. Thanks also go to members of the Council of Ministers and the National Assembly for their wise management of the nation's economy.

We would also like to extend our thanks to the Central Bank of Kuwait, and all other regulatory agencies for their continuous support to the Banking sector in Kuwait.

The Board of Directors would also like to express gratitude to our valued shareholders for their confidence and continued support of Commercial Bank of Kuwait. We also thank our customers for their trust and confidence in our services, and we assure them of our commitment to excellence in all fields.

Finally, we would like to thank our CGM & CEO Mr. Jamal Al-Mutawa, the senior management team and our employees who remain focused on achieving the Bank's strategic objectives through their professionalism, dedication, energy and commitment to our goals of excellence. Their tireless efforts, innovation and teamwork to deliver the best service and value to customers are the bedrock of the Bank's success. We have great confidence in our senior management team to provide the leadership required to sustain this remarkable record of achievements and to rise to the challenges of the future.

Abdul Majeed Haji AlShatti
Chairman & Managing Director

Economic Background

Few world economies were spared the aftermath of the global financial crisis that started in the U.S. real estate's subprime market in 2008. The meltdown affected banks, stock markets, investments and jobs after years of economic growth across the globe. Governments and central banks stepped in with financial packages to stimulate economies, paving the way for recovery from recession. The World Bank expected the global economy to shrink by 1.7 percent in 2009, a drop not seen since World War II, before it grows to 2.3 percent in 2010.

In Kuwait, the crisis coupled with a dramatic fall in oil prices in late 2008 and early 2009 slowed down development projects and shook the investment sector. Trading on the Kuwait Stock Exchange was volatile and its price index closed the year 10 percent lower.

Government intervention kept liquidity high in banks, and interest rates remained low throughout the year. However, the benefits were not immediately felt in 2009.

Good oil prices and plans by the government to revive a project to build a fourth oil refinery in Kuwait, and a long-awaited development plan with mega projects, are expected to boost the economy in 2010.

Review of Operations

Retail Banking Division

Faced with increased restrictions on lending and credit extension, and mounting competition from other local banks, the Retail Banking Division concentrated efforts in 2009 on striving for excellence in customer service.

The division continued to follow its conservative lending strategy, complying and coping well with the directives of the Central Bank. As a result of restructuring carried out in 2008, and the sales culture environment nurtured by the Bank's management, our branch network rose to the economic challenges and performed well.

Retail Banking introduced a range of new products and services in 2009 including the @ Tijari, a savings account that targeted the previously untapped market of youth between ages 14 and 21. In collaboration with the American International Group, Al-Tijari offered exclusive free travel insurance to all its credit card holders, their spouses and children. Coverage included accidental death, emergency medical expenses and flight delays.

The division continued to partner with scores of local businesses to offer discounts to Al-Tijari credit card holders, raising credit card sales by up to 20 percent in 2009.

Around 250,000 ATM cards were replaced with new more secure Chip Cards in the first half of the year. Clients were encouraged to collect the new ones by entering them in a raffle on a car and by a cash back offer.

The corporate Internet banking was enhanced with more features, and the technical facilities of the call center were upgraded to accelerate service. Al-Tijari added six ATMs and three offsite ATMs, bringing the total number of the machines available to customers to 113. The mobile banking vehicles currently in service are three bringing services to customers at fingertip. Retail Banking opened branches in Dasma and Hadiya, raising the number of its branches to 55. The Bank has the second largest branch network in Kuwait. A project which aimed at modernizing and unifying the interior and exterior design of all branches was completed in 2009 with the renovation work in Khaitan and Sharq.

Corporate Credit Division

In 2009, the financial crisis that shook capital and equity markets globally continued to affect the Kuwait economy. Particularly hit were investment companies as their access to funding disappeared and asset values plummeted. The real estate sector in Kuwait saw reduced activity but during the course of 2009, the government introduced an economic stimulus package to help financially troubled companies and encourage banks to extend credit to companies in an attempt to boost the economy.

The power sector saw the awarding, in the last quarter of 2009, of a landmark KD763 million contract for the construction of a power station at Subiyah. The second half of 2009 saw a noticeable increase in the tendering of substantial government infrastructure including roads, bridges and water projects, with contractors invited to bid for projects worth billions of Kuwaiti dinars. The oil & gas sector also saw numerous projects tendered or awarded for the renovation and maintenance of state-owned oil refineries.

Corporate Credit, with its team of creative and experienced professionals, was able to provide a unique pro-active personal service to its domestic and foreign corporate client base, assisting them through these challenging times.

International Banking Division

The Bank's International Division adopted a more conservative policy in 2009 in light of the global financial crisis. It continued to maintain strong relationships with a network of correspondent banks worldwide, but it was more focused on serving its local corporate customers and trade-related business.

The division gave special attention to deepening its ties with foreign correspondent banks, and succeeded in reducing expenses, improving efficiency and increasing fee income.

Treasury

In the difficult business environment created by the financial crisis that almost dried out liquidity on international markets, Treasury Division, in cooperation with other business areas in the Bank, doubled efforts to carry out its responsibilities of protecting the Bank's capital, managing its liquidity and maximizing yield.

Worldwide financial turmoil made liquidity management the prime focus for the divisions. In 2009, Treasury Division managed to build stronger ties with GCC banks after international banks cut drastically on providing funds. Treasury endeavored to deal with high-graded banks to protect the bank s capital. Maximizing yield was especially challenging on the back of record low interest rates.
Treasury's derivatives desk, which was set up late 2008, remained suspended till management deems circumstances are suitable to start derivative operations.

The division continued to play its market-maker role in the Kuwaiti dinar money market and the U.S. dollar/KD foreign exchange market.

Investment

The challenging investment environment persisted during 2009 due mainly to the local and regional economic and market conditions. The recovery of crude oil prices and the resultant surplus in the state budget did not filter down to the local economy as expected. The real estate, investment and banking sectors, which have a large weighting on the local indices continued to face difficulties.

The Investment Department was able to make selective gains and continued to take impairment provisions where required. Fund management fees, dividends and interest income also contributed to performance.

A team of mainly Kuwaiti professionals carries out all the investment activities of the Bank. Investment guidelines laid down by the Central Bank of Kuwait form the basis of the Bank's investment policy.

Asset management activities included six funds marketed under the Tijari umbrella. These funds cover a wide range of geographies and market sectors. Two of the six funds are fully Shari a compliant. They are:

- Tijari Investment Fund: Invests in quality stocks of Kuwaiti companies listed on the Kuwait Stock Exchange. It outperformed its peer group for most of the year by a wide margin and continued its position as the best performing fund in its class.
- Tijari Islamic Fund: Invests in Shari a compliant companies listed on the Kuwait Stock Exchange. Was consistently ranked either 1st or 2nd among its peer group during the year.
- Tijari GCC Equity Fund: Invests mainly in the large cap and high growth quality stocks of the GCC region. It returned 15.9% for the year.
- Tijari India Fund: Fund of Funds that invests in Indian equity markets. Its YTD return was in excess of 56%.
- Tijari Money Market Fund: Invests mainly in money market funds and debt instruments.
- Tijari Islamic Money Market Fund: Invests mainly in Islamic money market funds and Islamic debt instruments.

CBK Capital, the fully owned investment subsidiary of the Bank, manages the equity funds and the Bank manages the money market funds.

Risk Management Dvision

Risk Management provides an independent assessment of the risk taking activities of the Bank and relies mainly on the review and identification of potential risks before the approval of transactions. Such reviews enable the business groups and senior management to fully assess any risks and if required take steps to mitigate them. The Bank also undertakes ongoing reviews of existing transactions, portfolios, processes and systems to ensure that there is no materially adverse change in the risk profile.

Risk Management uses several quantitative tools for measuring risks. These include but are not limited to an objective risk assessment for obligors, Value at Risk (VaR) for market risk exposures, Earnings at Risk for interest rate risk in the banking book and key risk indicators for operational risks.

During the year, the Bank significantly enhanced its internal capital adequacy assessment process (ICAAP) under pillar two of Basel II by establishing new limits and management policies for legal, strategic and reputational risk. The Bank also substantially enhanced its stress test framework by bringing under its scope all the relevant risks and by taking an enterprise wide approach. Independent risk consultants objectively reviewed the ICAPP and stress testing enhancements to ensure the implementation of international best practice. The executive management and the board of directors review the ICAAP and stress test results in order to ensure adequacy of capital for all applicable risks and to assess the sensitivity to extreme events and potential mitigations. The Bank intends to further strengthen the internal controls, tools and resources in order to achieve the highest possible level of risk management and governance.

Information Technology

Although 2009 was financially challenging, the Bank continued to advance its technology upgrades, most importantly the core banking system. Major reviewing and restructuring of hardware and software was carried out in 2009 and new systems were introduced for increasing the security of the Bank's operations.

Operations Division

The Operations Division plays a vital role in guaranteeing the smooth running of the Bank's business and keeping up with competition and the fast pace of technological developments.

In 2009, the division concentrated on implementing the Bank's new core computer system, and partially completed a project for automating the process of reporting to the Central Bank of Kuwait. It also finalized a project for scanning documents that would save time, as well as cut on the use of paper.

The restructuring of units under the Operations Division continued in the course of the year, in an effort to increase efficiency. The Division also succeeded in strengthening internal control inside departments to ensure security and reduce the possibility of fraud.

Although Operations is not at the forefront of customer service, its Trade Services Department adopted a more aggressive policy to attract new customers, and it provided many with advice and assistance on technical matters. It strove to stay ahead of competition by being innovative, reducing banking fees, providing more online facilities and constantly training its staff members on the latest technologies.

The Division's Credit Administration Department invested heavily in new technologies and continued to complement the lending divisions of the Bank with its fully automated monitoring systems including collateral, credit concentration, various control mechanisms and reporting requirements.

The Treasury Operations Department maintained its support role for the Treasury Division, Investment Department and other business areas of the Bank.

Human Resources Department

The Bank firmly recognizes that people are its major source of strength to achieve its vision and strategy. The hiring of the talented and motivated people; continuing their development and retaining them are the foremost challenges in today's business environment. In line with this vision, the Human Resources Department focused in 2009 on building an expert talent base.

Our proactive Training Unit provided training and professional development programs not only to existing team members but also to new recruits in a wide variety of general and specialized internal and external training programs. These programs included the New Recruits Development Program, the Certificate in Credit Management, the Certificate in Bank Branch Management and the Certificate in Investment Management along with other professional qualifications. The aim was to equip staff with the knowledge and skills needed to enable them to take on positions of greater responsibility.

The Kuwaitisation of the workforce is a prime strategic objective of the Bank. On a regular basis, the Bank participated in the various career fairs held by Kuwait University and other private universities in Kuwait in order to attract high calibre Kuwaiti students. During the year, approximately 254 Kuwaitis were recruited, increasing the percentage of nationals employed by the Bank from 51.6% at the beginning of the year to over 60% by year end.

Internal Audit

Internal Audit continued to provide independent and objective assessment of the Bank's activities and during 2009 reviewed all areas of the Bank including Treasury, Corporate Credit, International Banking, Investments, Retail Banking and Branches, Card Centre, and the Bank's subsidiaries. The review included the Bank's major information systems and IT Security and several special investigation assignments.

Reacting to the changes in the strategic and operating environment, Internal Audit re-engineered its auditing approach and processes to be operational and business risk oriented. In addition, it played a proactive role by providing value add consultation and advisory services with regard to developing best practises and corporate governance.

Anti-Money Laundering Unit

Al-Tijari's Anti-Money Laundering Unit continued its efforts to ensure that the Bank is not intentionally or unintentionally used for laundering money, terrorist financing or any other criminal or fraudulent activities.

In compliance with Kuwait's anti-money laundering law and the Central Bank's instructions issued in that regard, the Unit monitored customer transactions, investigated unusual activities and reported suspicious cases to authorities.

The Unit continued to update its policies and procedures in line with international standards.

Legal Department

The global financial crisis which hit international, regional and local economies in 2009 emphasized the role of the Legal Department in safeguarding the Bank against legal risks, claims and lawsuits that may arise from contracts with third parties. The Department is team of experienced and highly qualified legal advisors continued to render legal consultations to the Bank's departments and branches. The Department also drafted contracts and agreements as required by the Bank's different business functions, and represented the Bank before courts and public prosecution to protect its interests, and the rights of its shareholders and employees.

Construction and Property Management

Under the Bank's ambitious expansion program, the Construction and Property Management Department completed the Construction Works of branches at Al Jleeb, Hadiya and Dasma. Branches in Sharq, Kheitan and Jahra were renovated and upgraded to comply with the Bank's prototype.
Construction of new branches in Fahaheel, Faiha and Regaee is in the pipeline.

Advertising and Public Relations

Commercial Bank of Kuwait and Community Service

Commercial Bank of Kuwait's continuous endeavors to offer sponsorship to all social activities comes in fulfillment of the Bank's corporate social responsibility as a leading financial institution in Kuwait. The Advertising and Public Relations Department continued its active role to demonstrate the Bank's corporate image. The Advertising and Public Relations team at Commercial Bank of Kuwait was in the heart of various social, humanitarian, health, sports and educational activities. During 2009, the Department offered sponsorship to a range of activities and events unhindered by the effects of the slowdown of the economy.

Advertising and Public Relations Department provided sponsorship to diverse activities aimed at serving people with special needs and children admitted to hospitals. Its team also participated with the handicapped in their celebrations of various occasions.

Realizing the importance of road safety issues, the Bank sponsored the Unified GCC Traffic Week. It collaborated with the Arab Towns Organization in a campaign for spreading greenery and planting trees in Kuwait. The Bank planted an olive tree in its name.

Strong Presence in Conferences and Seminars

Commercial Bank of Kuwait reinforced its presence in a number of economic and banking conferences and seminars. It sponsored the Kuwait Financial Forum organized by Al Iktissas Wal Aamal Group in collaboration with the Central Bank of Kuwait and Kuwait Banking Association. The Bank also took part in the Exhibition and Seminar of Banks and Chip Cards and actively participated in sponsoring the Third Kuwait Public Relations Conference and the Sixth Media Forum Works Exhibition.

Reviving the Kuwaiti Heritage

Commercial Bank of Kuwait always endeavors to revive the rich Kuwaiti heritage which it believes should be preserved and passed to future generations. In 2009 it resumed its efforts to connect the country s past with its present and future, and issued its 2010 calendar which illustrates old Kuwaiti proverbs in 12 distinctive paintings.

Al-Tijari, My Choice

Working closely with other departments, the Advertising and Public Relations Department continued its consolidated efforts to reinforce the Bank's positive image. It organized marketing and promotional campaigns to present the state-of-the-art services and products the Bank offers.

Corporate Governance

Framework for Governance

The Commercial Bank of Kuwait is committed to effective corporate governance, balancing innovation, commitment and corporate citizenship with control and transparency in all its dealings.

The board of directors of the Commercial Bank of Kuwait has resolved that good faith, integrity, compliance, quality and respect must guide the conduct of directors, management and staff at all times when engaged in the Bank's business. These principles apply equally in dealings with customers, counterparties, regulatory authorities and business colleagues.

In order to apply these principles in a consistent manner, the board has approved a formal Code of Conduct, which all employees receive on commencement of work with the Bank, including a requisite entry into a confidentiality undertaking.

The corporate governance framework for the Bank includes extensive operational policies and procedures, internal and external audit and compliance procedures, effective communications, transparent disclosure, accountability and measurement.

Background and Shareholders

Commercial Bank of Kuwait is a Public Shareholding Company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. The Bank is licensed and supervised as a commercial bank by the Central Bank of Kuwait. The board of directors was aware of the following shareholders with holdings in excess of 5% of the issued ordinary share capital as of 31st December 2008:

Al Sharq Holding 23.11%

Key Committees

The following sets out in summary form the principal objectives and responsibilities of each board committee.

The Board Executive Committee (BEC)

Appointment of the CGM & CEO and those who report to him or her and the Chairman & MD

- Setting of objectives and policy frameworks including those related to credit and investment
- Formulation of overall banking and operating strategy
- Review and approval of action plans and implementation
- Review and approval of the annual budget
- Review and approval of internal control policies and supervision thereof
- Performance of quarterly reviews on the implementation of the action plan, amending where necessary
- Review of actual financial performance against budget
- Review and approval of marketing, organizational and administrative matters
- Review and approval of capital and project expenditure above the Chairman & MDs authority
- Review and approval of the investment policy, recommending to the board of directors any required amendments.
- Approval of certain investments in line with the investment policy
- Review of the Executive Management Team’s quarterly performance report of the investment portfolio
- Approval of the asset class allocation of the investment portfolio
- Ensuring compliance with the Central Bank of Kuwait’s investment instructions and regulations
- Delegation of the Executive Management Team to execute the disposal and acquisition transactions, participation in capital increases and approve the asset class allocation of the investment portfolio
- Submission of semi-annual performance reports of the investment portfolio to the board of directors

The Board Credit Committee (BCC)

- Review and approval of the credit policy and proposed amendments by the Credit Committee or Risk Management in accordance with the Central Bank of Kuwait’s instructions
- Review and approval of country credit limits for credit, investment and treasury
- Review and approval of foreign exchange control within the Central Bank of Kuwait’s limits
- Review and approval of Bank counterparty limits
- Review and approval of new and renewed credit facilities based on the Credit Committees recommendations and within Central Bank of Kuwait’s limits
- Review and approval of fund returns, interest and fees reversal, off balance sheet transactions, write off of debts and the extension of credit limits as set out in the credit

policy and within the Central Bank of Kuwait's instructions
- Review and approval of credit facilities offered to members of the board of directors ensuring compliance with the Central Bank of Kuwait's instructions.

The Board Audit Committee
- Ensure a climate of effective corporate governance and discipline within Commercial Bank of Kuwait.
- Ensure the quality of financial reporting by reviewing the financial statements on behalf ofthe board
- Oversee and support the internal audit function, giving it a greater degree of independence from management
- Provide a framework for the external auditors to assert their independence, whilst providing a communications channel through which to express issues of concern
- Selection of the chief internal auditor
- Appoint external auditors and designate budget and special audit assignment fees
- Review any resignations by or terminations of the services of external auditors or the chief internal auditor
- Review with the external auditors the nature and scope of their audit and ensure proper coordination if more than one external audit office is involved

Board of Directors

In March 2006, shareholders elected the following as Board Members for a three-year term:
- Abdul Majeed Haji Al Shatti
- Abdul Razzak Khaled Al Wazzan
- Abdul Fatah Mohammed Rafee Marafie
- Sadek Ibrahim Marafie
- Ahmad Mohammed Al-Mishari
- Fouad Ismail Dashti
- Khaled Ibrahim Al-Raqum

FINANCIAL REVIEW

2009 Consolidated Statement of Income

The profit attributable to shareholders of the Parent Bank for the year is KD 146,000.

Net interest income of KD 104.0 million was KD 12.5 million or 11% lower than 2008. The average yield on interest earning assets declined to 4.78% from 6.45% in 2008, with the Central Bank of Kuwait discount rate falling during the two years from 5.75% to 3.00%. The average cost on interest bearing liabilities fell to 2.06%, down from the 3.83% of 2008. The Bank's net spread was 2.73% and the net interest margin was 2.86%.

Fees and commissions decreased by KD 1.5million or 5%. Dividend income of KD 2.4 million was down on 2008 following the sale of investments. Net gains from investment securities of KD 18.6 million in 2009 are down on 2008.

Staff expenses decreased KD 0.5 million or 3% on 2008 with staff numbers rising by 5 to 1,153. General and administration expenses decreased due to the reversal of prior year accruals that are no longer required.

Additional provisions were required on the investment portfolio and the loan book.

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. Total provision cover for 2009, including general provisions, was 62% of non-performing loans. Non-performing loans increased KD 324.6 million to KD 462.1 million. Post liberation non-performing loans were KD 319.2 million higher while pre invasion non-performing loans increased KD 5.4 million due to movement in foreign currency exchange rates. Pre invasion provisions are booked in the currency of the non-performing loan and increased KD 5.4 million in line with the underlying assets. Including the general provisions, total post liberation non-performing loan provision coverage is 51% for 2009.

2009 Consolidated Statement of Financial Position

Total assets decreased by KD 711.4 million or 16% on 2008; with reduction in Due from banks and other financial institutions and Customer deposits.

The Bank continues to comply with the loans to deposits ratio introduced by Central Bank of Kuwait in 2004, which requires Kuwaiti banks to maintain an average ratio for loans to deposits of 85%.

The capital adequacy ratio under Basel II regulations is 18.22% and comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

FINANCIAL REVIEW

Dividends and Proposed Appropriations

The profit attributable to shareholders of the Parent Bank for the year of KD 146,000 will be retained.

1. No dividend is proposed. (2008: 40 fils) as recommended by the Board of Directors. This is subject to approval by the Shareholders at the Annual General Meeting.

2. Nil to the Statutory Reserve, which now equals 50% of share capital and in accordance with the Law of Commercial Companies any future transfers are on a voluntary basis.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF KUWAIT S.A.K

We have audited the accompanying consolidated financial statements of Commercial Bank of Kuwait S.A.K ("the Parent Bank") and subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, and by the Bank's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended , or of the Articles of Association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, 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 organisation of banking business, and its related regulations, during the year ended 31 December 2009.

Ali Mohammed Al Hamad
Licence No. 111 A
PricewaterhouseCoopers

Dr. Shuaib A. Shuaib
Licence No. 33 A
Albazie & Co.
Member of RSM International

8 March 2010
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2009

	Note	2009 KD 000's	2008 KD 000's
ASSETS			
Cash and short term funds	3	252,658	319,709
Treasury and Central Bank bonds	4	361,345	251,811
Due from banks and other financial institutions	5	275,573	939,161
Loans and advances	6	2,406,910	2,430,381
Investment securities	7	222,144	130,492
Investment in associate	8	3,721	-
Premises and equipment		26,153	30,784
Goodwill and intangible assets	9	18,517	18,662
Other assets	10	28,276	185,651
TOTAL ASSETS		**3,595,297**	**4,306,651**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	1,044,014	1,042,693
Customer deposits	12	2,041,909	2,644,840
Other liabilities	13	68,619	121,725
Total liabilities		**3,154,542**	**3,809,258**
EQUITY			
Equity attributable to shareholders of the Parent Bank			
Share capital		127,202	127,202
Treasury shares		(75)	-
Reserves		220,852	226,805
Retained earnings		91,960	91,814
		439,939	445,821
Proposed dividend		-	50,881
		439,939	496,702
Non-controlling interests		816	691
Total Equity		**440,755**	**497,393**
TOTAL LIABILITIES AND EQUITY		**3,595,297**	**4,306,651**

These consolidated financial statements have been approved for issue by the Board of Directors on 8 March 2010 and signed on their behalf by:

Abdul Majeed Haji Al Shatti
Chairman & Managing Director

Jamal Abdul Hameed Al Mutawa
Chief General Manager & CEO

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED 31 DECEMBER 2009

	Note	2009 KD 000's	2008 KD 000's
Interest income	15	173,699	257,169
Interest expense	16	(69,647)	(140,601)
NET INTEREST INCOME		**104,052**	**116,568**
Fees and commissions		30,004	31,551
Fund management fees		1,255	2,097
Dividend income		2,422	5,824
Net gain from dealing in foreign currencies		2,483	5,909
Net gain from investment securities	17	18,603	34,642
Share of results of associate	8	(2,345)	-
Other operating income	18	832	1,397
OPERATING INCOME		**157,306**	**197,988**
Staff		(18,157)	(18,642)
General and administration	19	(5,505)	(13,266)
Depreciation & amortisation		(2,672)	(2,889)
OPERATING EXPENSES		**(26,334)**	**(34,797)**
PROFIT BEFORE PROVISIONS		130,972	163,191
Impairment and other provisions	20	(130,814)	(57,689)
PROFIT FROM OPERATIONS		**158**	**105,502**
Taxes and contributions	21	(6)	(4,554)
Directors' fees		-	(218)
NET PROFIT FOR THE YEAR		**152**	**100,730**
Profit attributable to:			
Shareholders of the Parent Bank		146	100,655
Non-controlling interests		6	75
		152	100,730
Earnings per share attributable to shareholders of the Parent Bank (fils)	22	**0.1**	**80.6**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2009

	KD 000's												
	Attributable to shareholders of the Parent Bank												
				Reserves									
	Share Capital	Proposed Bonus Shares	Treasury Shares	Share Premium	Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Fair Valuation Reserve	Retained Earnings	Proposed Dividend	Non-controlling Interest	Total
Balance 31/12/2007	**121,145**	**6,057**	**(7,223)**	**66,791**	**60,572**	**17,927**	**52,242**	**22,915**	**39,684**	**44,372**	**102,534**	**-**	**527,016**
Total comprehensive (loss)/ income for the year	-	-	-	-	-	-	-	2,421	(32,137)	101,152	-	(90)	71,346
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	781	781
Treasury shares purchased	-	-	(102,167)	-	-	-	-	-	-	-	-	-	(102,167)
Treasury shares sold	-	-	109,390	-	-	-	(6,639)	-	-	-	-	-	102,751
Bonus shares issued	6,057	(6,057)	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	3,029	-	-	-	-	(3,029)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	200	(102,534)	-	(102,334)
Proposed dividend	-	-	-	-	-	-	-	-	-	(50,881)	50,881	-	-
Balance 31/12/2008	**127,202**	**-**	**-**	**66,791**	**63,601**	**17,927**	**45,603**	**25,336**	**7,547**	**91,814**	**50,881**	**691**	**497,393**
Total comprehensive (loss)/ income for the year	-	-	-	-	-	-	-	(3,778)	(2,175)	146	-	188	(5,619)
Treasury shares purchased	-	-	(75)	-	-	-	-	-	-	-	-	-	(75)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(50,881)	63	(50,944)
Balance 31/12/2009	**127,202**	**-**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**21,558**	**5,372**	**91,960**	**-**	**816**	**440,755**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2009

	2009 KD 000's	2008 KD 000's
Net profit for the year	152	100,730
Other comprehensive income:		
Changes in fair value of investment securities	7,491	(9,255)
Net loss on disposal/ impairment of investment securities	(9,484)	(22,550)
Property revaluation (loss)/ gain	(3,778)	2,421
	(5,771)	(29,384)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR	**(5,619)**	**71,346**
Attributable to:		
Shareholders of the Parent Bank	(5,807)	71,436
Non-controlling interests	188	(90)
	(5,619)	**71,346**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2009

	Note	2009 KD 000's	2008 KD 000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		158	105,502
Adjustments for:			
Provisions for impairment on loans and advances		101,029	28,573
Income from investment securities		(21,025)	(40,466)
Foreign exchange and other losses on investment securities		(375)	211
Depreciation and amortisation		2,672	2,889
Other provisions and valuation adjustments		29,861	29,116
Share of results of associate		2,345	-
		114,665	**125,825**
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		(109,534)	(44,166)
Due from banks and other financial institutions		663,688	266,100
Loans and advances		(77,558)	(244,733)
Other assets		63,199	(161,157)
Due to banks and other financial institutions		1,321	33,197
Customer deposits		(602,931)	8,990
Other liabilities		(52,309)	14,148
Net cash from (used in) operating activities		**441**	**(1,796)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		77,624	230,323
Acquisition of investment securities		(94,925)	(142,141)
Acquisition of a subsidiary		-	(20,900)
Dividend income from investment securities		2,422	5,824
Proceeds from disposal of premises and equipment		31	(16)
Acquisition of premises and equipment		(1,688)	(3,479)
Net cash (used in) from investing activities		**(16,536)**	**69,611**
CASH FLOWS FROM FINANCING ACTIVITIES			
Subordinated loan		-	(16,380)
Purchase of treasury shares		(75)	(102,167)
Sale of treasury shares		-	102,751
Dividend paid		(50,881)	(102,334)
Net cash used in financing activities		**(50,956)**	**(118,130)**
Net decrease in cash and short term funds		(67,051)	(50,315)
Cash and short term funds at beginning of the year		319,709	370,024
Cash and short term funds at end of the year	3	**252,658**	**319,709**

The attached notes 1 to 31 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The Parent Bank is a public shareholding company incorporated in Kuwait and is registered as a bank with the Central Bank of Kuwait.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the Government of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement of a minimum general provision.

The consolidated financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of freehold land, derivative contracts and financial instruments classified as "at fair value through statement of income" or "available for sale".

These consolidated financial statements are presented in Kuwaiti dinar, which is the Group's presentation currency.

These consolidated financial statements are subject to the approval of the shareholders at the Annual General Assembly.

The accounting policies are consistent with those used in the previous year except for the amendments to IAS 1 and IFRS 7 and adoption of IFRS 8.

i) Amendments to IFRS 7 "Financial Instruments - disclosures": These amendments require enhanced disclosures about fair value measurement and liquidity risk.

ii) IFRS 8 "Operating Segments": The Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of this Standard results in amended disclosures but does not have an impact on the financial position or the financial performance of the Group.

iii) IAS 1 (revised) "Presentation of Financial Statements": The revised Standard requires to separate owner and non-owner changes in equity. The statement of changes in equity includes only the detail of transactions with owners, where as all non-owners changes in the equity are included in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised Standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

The IASB issued / amended the following Standards which are not yet effective and accordingly have not been adopted by the Group:

i) IAS 27 (Revised 2008) "Consolidated and Separate Financial Statements": The revised Standard was issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. The Standard requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction, without losing control.

ii) IFRS 3 (Revised 2008) "Business Combinations": The revised Standard was issued in January 2008 and became effective for business combinations for which the acquisition date is on or after for financial years beginning on or after 1 July 2009. The Standard introduces significant changes in the accounting for future business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

iii) IFRS 9: Financial Instruments (classification and measurement), improves the ability of the users of the financial statements to assess the amount, timing and uncertainty of future cash flows of the Group by replacing the various financial instruments classification categories and associated impairment methods.

The application of IFRS 9 will result in amendments and additional disclosures relating to financial instruments and associated risks. The application of other Standards is not expected to have a material impact on the consolidated financial statements of the Group.

(b) Basis of consolidation

The financial statements of the consolidated subsidiaries used to prepare consolidated financial statements were prepared as at the Parent Bank's reporting date.

i) Subsidiaries
Subsidiaries are those entities controlled by the Parent Bank. Control exists when

the Parent Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line -by-line basis, from the date on which the control is transferred to the Parent Bank until the date that control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions, income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests of changes in equity since the date of the combination.

ii) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Intragroup gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For preparation of consolidated financial statements, uniform accounting polices for similar transactions and other events in similar circumstances are used.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement; its share of post-acquisition equity movements is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment annually.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquire, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized initially at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5.

Non-current assets held for sale and discontinued operations, are recognized and measured at fair value less costs to sell.

The non-controlling interests in the acquiree are initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Cash and short term funds

Cash and short term funds comprise cash in hand and current accounts with banks, balances with the Central Bank of Kuwait and deposits with banks maturing within seven days.

(e) Financial instruments

(i) Classification and measurement

The Group classifies its financial instruments as "at fair value through statement of income", "held to maturity", "loans and receivables" and "available for sale". Financial liabilities are classified as "other than at fair value through statement of income". All financial instruments are initially recognised at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial instrument, except for financial instruments classified as "at fair value through statement of income". Management determines the appropriate classification of each instrument at the time of acquisition.

At fair value through statement of income

Financial assets "at fair value through statement of income" are further divided into two sub categories: "held for trading" and "designated at fair value through statement of income at inception". A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets are designated by management upon initial recognition "as at fair value through statement of income", if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivative instruments are categorised as "held for trading" unless they are designated as hedging instruments. Financial assets "at fair value through statement of income" are subsequently remeasured at fair value and gains or losses arising from changes in fair value are included in the consolidated statement of income.

Held to maturity

These are non-derivative financial assets "other than loans and receivables" with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. These are subsequently remeasured and carried at amortised cost using the effective yield method, less any provision for impairment.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently remeasured and carried at amortised cost using the effective yield method, less any provision for impairment.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and are principally acquired to be held for an indefinite period of time; which may be sold in response to needs for liquidity or changes in interest rates or equity prices. These are subsequently remeasured and carried at fair value. Any resultant unrealised gains and losses arising from changes in fair value are taken to fair valuation reserve in other comprehensive income. When the "available for sale" asset is disposed of or impaired, any prior fair value adjustments earlier reported in other comprehensive income are transferred to the consolidated statement of income.

(ii)Financial liabilities

Financial liabilities are classified as "other than at fair value through statement of income". These are subsequently remeasured at amortised cost using the effective yield method.

(iii) Recognition and de-recognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset. If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognised when the obligation specified in the contract is discharged.

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

(iv) Derivative financial instruments and hedge accounting

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of a recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met.

Changes in the fair value of derivatives that are fair value hedges are recorded in the consolidated statement of income, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

The effective portion of changes in the fair value of derivatives that are cash flow hedges are recognised in the hedge reserve in equity. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of income. Where the forecasted transaction or firm commitment results in the recognition of a non-financial asset or of a liability, the gains or losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the related asset or liability. Otherwise, amounts deferred in other comprehensive income are transferred to the consolidated statement of income in the period the hedged firm commitment or forecasted transaction affects the consolidated statement of income.

If such derivative transactions, while providing effective economic hedges under the

Group's risk management policies do not qualify for hedge accounting under the specific rules of IAS 39, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated financial position. The resultant gains and losses are included in the consolidated statement of income.

(v) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, guarantees and acceptances on behalf of its customers. Financial guarantees are initially recognised as a liability in the consolidated financial statements at fair value, being the fee and commission received in advance. The fee and commission received is amortised over the life of the guarantee and recognised in the consolidated statement of income. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee liability is likely to become payable, the present value of the expected cash flows less the unamortised fee and commission is charged to the consolidated statement of income.

(vi) Renegotiated loans

Loans that are past due but not impaired may be renegotiated by the Group by agreeing new loan conditions. Once a loan is renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether the loan remains past due. Loans that are past due and impaired may be renegotiated and continue to be included in non-performing loans as per Central Bank of Kuwait regulations.

(vii) Offsetting financial instruments

Financial assets and liabilities are offset and net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(viii) Fair values

For financial instruments traded in an organised financial market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of interest bearing financial instruments is estimated based on

discounted cash flows using interest rates for items with similar terms and risk characteristics. The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount payable on demand.
The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using the prevailing market rate or internal pricing models.

For unquoted equity instruments, fair value is determined by reference to the market value of a similar investment, on the estimated discounted cash flows, other appropriate valuation models or brokers' quotes. When the fair values of unquoted equity investments can not be measured reliably, these are stated at cost less impairment losses if any.

(ix) Amortised cost

Amortised cost is computed by taking into account any discount or premium on acquisition of the financial instrument and fees and costs that are an integral part of the effective interest rate.

(x) Impairment of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event has an impact on the estimated future cash flows of the specific financial asset or group of financial assets that can be reliably estimated. The Group assesses whether objective evidence of impairment exists on an individual basis for significant assets and collectively for others. The criteria that the Group uses to determine whether there is objective evidence of impairment include:

i) Assets carried at amortised cost

(A) debit balance in the current account has been constantly showing an excess of 10% of the borrower's overdraft limit;

(B) debit balance without an authorised limit, irrespective of the value of such a debit balance;

(C) credit facilities have expired and have not been renewed or extended in light of the outcome of the borrower's financial position;

(D) installments of the loan have not been repaid on their respective due dates;

(E) deterioration of the borrower's guarantor's financial position

(F) the borrower violates any of the agreed covenants, which may adversely affect the credit;

(G) the borrower or guarantor is placed under liquidation or bankruptcy;

(H) evident facts indicate potential crystallization of the borrower's non-cash facility without timely reimbursement;

(I) the borrower is in default in payment of any obligation to other banks or financial institutions;

(J) legal action initiated by any other bank or financial institution against the borrower or guarantor for recovery of any credit facility.

(K) reduced activity in the borrower's account so that:

1) there are no credits in the account for the last six months even if the outstanding is within the overdraft limit.

2) credits in the account during the year are insufficient to cover the interest debited.

(L) irregularities in documentation which may affect the prospects of recovery of the loan.

When a loan is not collectible, it is written off against the related allowance account for impairment.

In addition, in accordance with the Central Bank of Kuwait's instructions, a minimum general provision of 1% for cash credit facilities and 0.5% for non cash credit facilities not subject to specific provision and net of certain categories of collateral, is made.

The amount of impairment loss is measured for financial assets carried at amortised cost, such as loans and advances, as the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the recovered asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charges for credit losses.

ii) Assets classified as available for sale

In the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the financial assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income. Impairment losses recognised on available for sale equity investments are not reversed through the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in the consolidated statement of income.

(f) Premises and equipment

Freehold land is stated at fair value and is not depreciated. Fair value is determined by annual appraisals of market value and is performed by independent experts. An increase in the carrying amount of an asset as a result of revaluation is credited directly to the property revaluation reserve under other comprehensive income. A decrease in the carrying amount of an asset as a result of revaluation is recognized as an expense in the consolidated statement of income. A revaluation decrease is charged directly to the property revaluation reserve to the extent that the decrease does not exceed the amount held in reserve for that asset.

Buildings and other assets are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to write down the cost of such assets over their estimated useful lives as follows:

Buildings	up to 20 years
Leasehold improvements	up to 3 years
Furniture and equipment	up to 5 years
Computer hardware and software	up to 5 years

Premises and equipment are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to consolidated statement of income.

(g) Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets acquired in a business combination at the date of acquisition. Goodwill is allocated to each cash generating unit for the purpose of impairment testing. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Identifiable non-monetary assets acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets with indefinite useful lives are not subject to amortization and are tested at least annually for impairment. Intangible assets which have a finite life are amortized over their useful lives.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(h)Treasury shares

The Parent Banks' holding in its own shares is stated at acquisition cost. These shares are not entitled to any cash dividend that the Parent Bank may propose.

Gains or losses arising on sale are separately disclosed under treasury shares reserve in equity in accordance with the instructions of the Central Bank of Kuwait.

These amounts are not available for distribution, during such period the shares are held by the Parent Bank.

(i)Revenue recognition

Interest income and expense for all interest bearing financial instruments are recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts are considered, but not future credit losses.

Once a financial asset or a group of financial assets has been impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income is generally recognised on an accrual basis, when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred together with related direct costs, and recognised as an adjustment to the effective interest rate on the loan. Asset management fees are recognised over the period in which the service is provided.

Dividend income is recognised when the right to receive payment is established.

(j)Foreign currencies

Foreign currency transactions are translated into Kuwaiti dinar at rates of exchange prevailing at value dates of the transactions. Monetary assets and liabilities in foreign currencies and forward foreign currency transactions outstanding at the date of statement of financial position are translated into Kuwaiti dinar at rates of exchange prevailing at the date of statement of financial position. Any resultant gains or losses are taken to the consolidated statement of income.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Translation difference on non-monetary items classified at fair value through statement of income are reported as part of the fair value gain or loss in the statement of income whereas the translation difference on non-monetary items classified as available for sale financial assets are included in fair valuation reserve in other comprehensive income.

(k) Termination pay

The Group is liable under Kuwait Labour Law, to make payments to employees for post-employment benefits in respect of defined benefit plans. This liability is finally computed and fully settled at the end of an employee's service.

The Group recognizes this cost as an expense of the year and is calculated based on the accumulated period of service as of the date of statement of financial position. The Group considers this to be a reliable approximation of the present value of this obligation.

(l) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group.

(m) Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has used judgments and made estimates in determining amounts recognised in the consolidated financial statements. The most significant are as follows:

Judgments

Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as "at fair value through statement of income", "held to maturity", "loans and receivables" or "available for sale". The Group follows the guidance of IAS 39 in classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for the purpose of selling in the short term or if so designated by management upon initial recognition if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Debt securities which are not quoted in an active market are classified as "loans and receivables". All other investments are classified as "available for sale".

Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment. The Group evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance; changes in technology; and operational and financing cash flows.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances and investment in debt instruments, The Group reviews problem loans and advances and investments in debt instruments on a quarterly basis to assess whether a loss for impairment should be recognised in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment loss required.

Valuation of unquoted equity investments

Valuation techniques for unquoted investment securities are based on estimates such as expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; recent arm's length market transactions; current fair value of another instrument that is substantially the same; or other relative valuation models.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying value of loan losses and fair values of unquoted equity investments.

Impairment of goodwill and intangible assets

The Group determines whether goodwill and intangible assets is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated. Estimating a "value in use" requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present value of the cash flows.

3- CASH AND SHORT TERM FUNDS

	2009 KD 000's	2008 KD 000's
Cash and cash items	45,912	42,631
Balances with the Central Bank of Kuwait	45,127	29,104
Deposits with banks maturing within seven days	161,619	247,974
	252,658	**319,709**

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

4- TREASURY AND CENTRAL BANK BONDS

	2009 KD 000's	2008 KD 000's
Treasury bonds	215,345	193,881
Central Bank bonds	146,000	57,930
	361,345	**251,811**

Treasury and Central Bank bonds are classified as "loans and receivables" and are bought from and sold to the Central Bank of Kuwait as part of the Group's liquidity management.

Central Bank bonds are issued at a discount by the Central Bank of Kuwait and carry a fixed yield to maturity. Treasury bonds issued by the Central Bank of Kuwait carry a fixed rate of interest until maturity.

5- DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Classification

Due from banks and other financial institutions are classified as "loans and receivables".

	2009 KD 000's	2008 KD 000's
Placements with banks	242,973	801,375
Loans and advances to banks	44,925	85,268
Amounts due from other financial institutions	8,225	56,639
	296,123	**943,282**
Less : Provision for impairment	(20,550)	(4,121)
	275,573	**939,161**

(b) Non-performing loans

At 31 December 2009, non-performing loans and advances to KD 37,413 thousand (2008 KD 4,121 thousand), split between facilities granted pre-invation and post liberation as follows:

	2009 KD 000's			2008 KD 000's		
	Loan Balance	Of which Secured	Available Provision	Loan Balance	Of which Secured	Available Provision
Granted prior to the invasion of Kuwait in 1990	4,286	-	4,286	4,121	-	4,121
Granted after the liberation of Kuwait in 1991	33,127	14,353	16,264	-	-	-
	37,413	**14,353**	**20,550**	**4,121**	-	**4,121**

6- LOANS AND ADVANCES

(a) Classification

Loans and advances are classified as "loans and receivables". The Group's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below:

	KD 000's					
As at 31 December 2009	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	382,676	769	2,529	14	-	385,988
Construction and real estate	701,841	19,176	31	12,200	-	733,248
Other financial institutions	267,412	1,189	-	-	-	268,601
Retail customers	418,247	-	-	-	-	418,247
Others	797,143	18,704	546	-	81,648	898,041
	2,567,319	**39,838**	**3,106**	**12,214**	**81,648**	**2,704,125**
Less: Provision for impairment						(297,215)
						2,406,910

	KD 000's					
As at 31 December 2008	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	391,737	521	2,278	13	-	394,549
Construction and real estate	694,090	1,119	-	11,728	-	706,937
Other financial institutions	352,294	243	-	-	-	352,537
Retail customers	372,523	-	-	-	-	372,523
Others	730,836	-	-	-	72,692	803,528
	2,541,480	**1,883**	**2,278**	**11,741**	**72,692**	**2,630,074**
Less: Provision for impairment						(199,693)
						2,430,381

(b) Movement in provisions for loans and advances

	2009 KD 000's			2008 KD 000's		
	Specific	**General**	**Total**	**Specific**	**General**	**Total**
Provisions 1 January	109,859	87,120	196,979	100,084	65,070	165,154
Write-offs	(25)	-	(25)	(3,248)	-	(3,248)
Exchange differences	5,467	-	5,467	5,053	-	5,053
Recoveries	2,098	-	2,098	1,570	-	1,570
Ceded to Central Bank	(30)	-	(30)	(123)	-	(123)
Charged/(released) to statement of income	93,117	(12,084)	81,033	6,523	22,050	28,573
Provisions 31 December	**210,486**	**75,036**	**285,522**	**109,859**	**87,120**	**196,979**

The policy of the Group for calculation of the impairment provisions for loans and advances complies in all material respects with the specific provision requirements of the Central Bank of Kuwait.

The current year specific and general provision for cash credit facilities is KD 285,522 thousand (2008: KD 196,979 thousand) in addition to KD 11,693 thousand (2008: KD 2,714 thousand) for interest in suspense (representing uncollected interest). The available provision for non-cash credit facilities of KD 17,521 thousand (2008: KD 17,910 thousand) is included in other liabilities. Further to the minimum general provision, the Group has additional provision of KD 42,600 thousand (2008: KD 51,600 thousand) over and above the Central Bank of Kuwait requirements.

(c) Non-performing loans

At 31 December 2009 non-performing loans and advances amounted to KD 462,104 thousand (2008: KD 137,500 thousand), split between facilities granted pre-invasion and post liberation as follows:

	2009 KD 000's			2008 KD 000's		
	Loan Balance	Of which Secured	Available Provision	Loan Balance	Of which Secured	Available Provision
Granted prior to the invasion of Kuwait in 1990	98,840	-	98,840	93,403	-	93,403
Granted after the liberation of Kuwait in 1991	363,264	81,452	123,338	44,097	20,491	19,170
	462,104	**81,452**	**222,178**	**137,500**	**20,491**	**112,573**

The available provision disclosed above includes provision for principal debt and interest in suspense (representing uncollected interest). When no longer required, the provisions held for debts granted prior to the invasion of Kuwait in 1990 are ceded to the Central Bank of Kuwait.

7- INVESTMENT SECURITIES

	2009 KD 000's	2008 KD 000's
At fair value through statement of income		
Equity securities -quoted	6,292	7,598
Loans and receivables		
Debt securities -unquoted	2,156	3,379
Available for sale		
Debt securities -quoted	1,252	1,252
Debt securities -unquoted	8,536	9,642
Equity securities -quoted	126,566	31,879
Equity securities -unquoted	38,964	51,548
Others	38,378	25,194
	222,144	**130,492**

During the year, the Group recognised an unrealised gain of KD 7,491 thousand (2008: unrealised loss of KD 9,255 thousand) in other comprehensive income as arising from changes in fair value and re-cycled a gain of KD 5,411 thousand (2008: KD 4,658 thousand) to income on disposal of "available for sale" investment securities. Impairment loss of KD 30,517 thousand (2008: KD 27,208 thousand) was also charged to the consolidated statement of income.

It was not possible to reliably measure the fair value of unquoted equity securities amounting to KD 4,230 thousand (2008: KD 8,904 thousand) due to non-availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses, if any.

8- INVESTMENT ASSOCIATE

The Group owns 32% (2008: 32%) interest in Al Cham Bank, a private bank incorporated in the Republic of Syria engaged in Islamic banking activities.

The share in assets, liabilities, revenues and result of the associate for the year ended 31 December 2009 is as follows:

	2009
Share of associate's assets and liabilities:	KD 000's
Current assets	21,357
Non-current assets	1,251
Current liabilities	18,887
Non-current liabilities	-
Net assets	**3,721**
Share of associate's net revenues and results:	
Net revenues	(105)
Results for the period	(2,345)

The investment was previously included in "available for sale - unquoted securities" and was not equity accounted as it was not then material.

9- GOODWILL AND INTANGIBLE ASSETS

	2009	2008
	KD 000's	KD 000's
Goodwill	1,765	1,765
Intangible assets	16,752	16,897
	18,517	**18,662**

Intangible assets represents the value of a brokerage license KD 16,185 thousand (2008: KD 16,185 thousand), patents KD 43 thousand (2008: KD 57 thousand) and customer relationship KD 524 thousand (2008: KD 655 thousand) . The brokerage license is considered to have an indefinite useful life. As at 31 December 2009 there was no indication of any impairment of this particular asset. The patents and customer relationship are amortised over a period of 5 years.

10- OTHER ASSETS

	2009 KD 000's	2008 KD 000's
Accrued interest receivable	1,369	17,073
Receivable on sale of local securities	-	48,846
Others	26,907	119,732
	28,276	**185,651**

Other assets are classified as "loans and receivables".

11- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2009 KD 000's	2008 KD 000's
Due to banks		
Current accounts and demand deposits	8,923	140,374
Time deposits	197,261	251,471
	206,184	**391,845**
Deposits from other financial institutions		
Current accounts and demand deposits	44,917	107,223
Time deposits	792,913	543,625
	837,830	**650,848**
	1,044,014	**1,042,693**

12- CUSTOMER DEPOSITS

	2009 KD 000's	2008 KD 000's
Current accounts and demand deposits	271,281	274,692
Saving accounts	271,761	238,694
Call deposits	23,337	17,138
Time deposits	1,475,530	2,114,316
	2,041,909	**2,644,840**

13- OTHER LIABILITIES

	2009 KD 000's	2008 KD 000's
Accrued interest payable	14,027	36,774
Deferred income	2,401	18,414
Provision for non-cash facilities & others	21,652	22,460
Staff related accruals	383	5,125
Others	30,156	38,952
	68,619	**121,725**

14- Equity

(a) Share capital

The share capital comprises of 1,272,022,346 (2008: 1,272,022,346) authorized, subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management please refer to note III “Capital adequacy” of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2009	2008
Number of treasury shares	70,000	-
Percentage of treasury shares	0.01	-
Cost of shares (KD 000’s)	75	-
Fair value of shares (KD 000’s)	67	-

The Board of Directors has been given the authority to purchase treasury shares up to a maximum of 10% of the share capital of the Parent Bank.

(c) Share premium

This represents the excess over the nominal value collected on the issue of shares and is not available for distribution.

(d) Statutory and general reserves

In accordance with the Commercial Companies Law of 1960 and the Parent Bank’s Articles of Association, the Parent Bank has transferred KD Nil thousand (2008: KD 3,029 thousand) to statutory reserve, to reach 50% of the share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of share capital in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The general reserve was created in accordance with the Parent Bank’s Articles of Association and is available for distribution. During the years 2009 and 2008 there were no transfers to general reserve.

(e) Treasury shares reserve

This represents gains or losses arising on the sale of treasury shares held by the Parent Bank and is not available for distribution.

(f) Property revaluation reserve

This represents surpluses arising from the revaluation of property. The balance in this reserve is taken directly to retained earnings upon disposal of assets.

(g) Fair valuation reserve

This represents gains or losses arising from changes in the fair value off "available for sale" financial assets. The balance in this reserve is transferred to the consolidated statement of income when the underlying assets are disposed off or impaired.

(h) Proposed dividend and bonus shares

The Board of Directors decided not to distribute any cash dividend. This decision is subject to shareholders' approval. The Annual General Assembly held on 11 March 2009 approve the distribution of cash dividend of 40 fils per share (KD 50,881 thousand) for 2008

15- INTEREST INCOME

	2009 KD 000's	2008 KD 000's
Loans and advances to banks and customers	155,880	194,405
Interbank transactions and placements	11,000	53,473
Bonds and other investments	6,819	9,291
	173,699	**257,169**

Interest income includes a release of KD 3,476 thousand (2008: KD 3,277 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 and 2008, as per Central Bank circular 2/202BS RSA/2007 dated February 13, 2007 and Central Bank circular 2/105 dated April 23, 2008.

16- INTEREST EXPENSE

	2009 KD 000's	2008 KD 000's
Customer deposits	(44,454)	(102,334)
Interbank transactions and deposits	(25,193)	(37,681)
Long term borrowings and subordinated loan	-	(586)
	(69,647)	**(140,601)**

17- NET GAIN FROM INVESTMENT SECURITIES

	2009 KD 000's	2008 KD 000's
Unrealised gain/ (loss) on investments at fair value through statement of income	488	(6,000)
Realised (loss)/ gain on sale of investment at fair value through statment of income	(1,474)	327
Realised gain on sale of available for sale investments	19,589	40,315
	18,603	**34,642**

18- OTHER OPERATING INCOME

	2009 KD 000's	2008 KD 000's
Communication recoveries	706	1,198
Rental income	60	71
Others	66	128
	832	**1,397**

19- GENERAL AND ADMINISTRATION

	2009 KD 000's	2008 KD 000's
Premises and occupancy	(1,684)	(1,504)
IT and software costs	(1,288)	(1,301)
Marketing and public relations	(1,034)	(1,537)
Professional Services	(2,232)	(2,166)
Communications	(303)	(393)
Other administration expenses	1,036	(6,365)
	(5,505)	**(13,266)**

20- IMPAIRMENT AND OTHER PROVISIONS

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

	2009 KD 000's	2008 KD 000's
Loans and advances - specific	(113,112)	(6,523)
Loans and advances - general	12,084	(22,050)
Investment securities	(30,517)	(27,208)
Non cash facilities	379	(1,202)
Other provisions	352	(706)
	(130,814)	**(57,689)**

21- TAXES AND CONTRIBUTIONS

	2009 KD 000's	2008 KD 000's
National Labour Support Tax	-	(2,563)
Contribution to Kuwait Foundation for Advancement of	(3)	(1,024)
Sciences	(3)	(967)
Zakat	**(6)**	**(4,554)**

National Labour Support Tax represents the Group's liability to pay 2.5% of the net profit in accordance with Ministry of Finance resolution No. 24/2006.

Contribution to Kuwait Foundation for Advancement of Sciences is calculated at 1% of the profit for the year after deducting transfer to the statutory reserve.

Zakat represents the Group's liability to pay 1% of the net profit in accordance with Ministry of Finance resolution No. 58/2007.

22- EARNINGS PER SHARE

	2009	2008
Net profit for the year attributable to shareholders' of the Parent Bank (KD 000's)	146	100,655
Weighted average of authorised and subscribed shares (numbers in 000's)	1,272,022	1,272,022
Less: Weighted average of own shares held (numbers in 000's)	(41)	(23,442)
	1,271,981	1,248,580
Earnings per share attributable to shareholders' of the Parent Bank (fils)	**0.1**	**80.6**

23- SUBSIDIARIES

Entity	Country of incorporation	Principal business	Ownership
Al Tijari Investment Company	Kuwait	Investment banking	100%
Union Securities Brokerage Company	Kuwait	Brokerage Services	80%

24- RELATED PARTY TRANSACTIONS

During the year 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 the normal amount of risk. The balances at the date of statement of financial position are as follows:

	2009			2008		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	1	7	17,048	1	2	34,908
Credit cards	3	4	2	1	3	11
Deposits	7	17	2,290	7	16	511
Executive Management						
Loans	4	4	236	14	1	298
Credit cards	6	6	5	9	6	13
Deposits	13	28	3,064	14	31	5,464

The loans issued to directors, key management personnel and related members are repayable within 5 years and have interest rates of 2.00 % to 6.00 % (2008: 5.00 % to 7.75 %). The loans given are collateralised by real-estate and equities. The fair value of these collaterals as at 31 December 2009 is KD 6,031 thousand (2008: KD 55,649 thousand).

Details of compensation for key management included in the consolidated statement of income are as follows:

	2009 KD 000's	2008 KD 000's
Salaries and other short-term benefits	(1,206)	(1,293)
Post employment benefits	(20)	(17)
Termination benefits	(87)	(219)

25- FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Fair values of interest bearing financial assets and liabilities not represented on the Group's consolidated financial position at fair values have been estimated using prevailing interest rates for debts with similar credit risk and residual maturity. The carrying value of such financial instruments generally approximates their fair value.

The Group uses a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

i) Level 1 – Quoted prices in active markets for identical assets or liabilities.

ii) Level 2 –Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Financial instruments recorded at fair value by level of the fair value hierarchy are as follows:

	KD 000's		
31 December 2009	**Level 1**	**Level 2**	**Total**
Financial assets at fair value through statement of income			
Equity securities	6,292	-	6,292
Loans and receivables			
Debt securities	-	2,156	2,156
Available for sale financial assets			
Debt securities	-	9,788	9,788
Equity securities	155,083	48,825	203,908
Total assets	**161,375**	**60,769**	**222,144**
Financial liabilities designated at fair value			
Interest rate swaps	(2)	-	(2)
Total liabilities	**(2)**	-	**(2)**

26- FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

As a commercial bank, the Group's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates and for various periods and seeks to invest these funds in high quality assets at a fair interest margin while maintaining sufficient liquidity to meet the Group's needs.

The Group also seeks to raise interest margins through lending to commercial and retail borrowers with a range of credit ratings. Such exposures involve not only loans and advances but the Parent Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

The use of financial instruments also brings with it the associated inherent risks. The Group recognises the relationship between returns and risks associated with the use of financial instruments and the management of risks form an integral part of the Group's strategic objectives.

(b) Overall risk management

The strategy of the Group is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Group's major risk-based lines of business. The Group continuously reviews its risk management policies and practices to ensure that the Group is not subject to large asset valuation volatility and earnings volatility. For detailed qualitative disclosure on the risk management functions please refer to note IV, "Risk management", of the Public Disclosures on Capital Adequacy Standard.

The Group's risk management measures are based on the specific type of risks as mentioned below:

(i) CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

For detailed qualitative disclosure on the credit risk measurement please refer to note IV(b), "Risk management - Credit risk", of the Public Disclosures on Capital Adequacy Standard.

A) Credit risk concentration

The credit risk concentration within loans and advances, which form the significant portion of assets subject to credit risk, is given in note 6.

B) Maximum exposure to credit risk before collateral held or other credit enhancements The following table represents the maximum credit risk exposure at the date of statement of financial position without taking account of any collateral and other credit enhancements.

	2009	2008
	KD 000's	KD 000's
Credit exposure relating to on balance sheet items		
Cash and short term funds	252,658	319,709
Treasury and Central Bank bonds	361,345	251,811
Due from banks and OFIs	296,123	943,282
Loans and advances - Corporate	2,285,878	2,257,551
Loans and advances - Retail	418,247	372,523
Debt securities	11,944	14,273
Other assets	28,276	185,651
	3,645,471	**4,344,800**

	2009	2008
	KD 000's	KD 000's
Credit exposure relating to off balance sheet items		
Acceptances	34,223	252,065
Letters of credit	184,845	562,471
Letters of guarantee	849,666	1,122,408
Others	40,230	42,251
	1,108,964	1,979,195
	4,763,435	**6,323,995**

The primary purpose of off balance sheet financial instruments is to ensure that funds are available to a customer as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

C) Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

For detailed qualitative disclosure on the collateral and other credit enhancements please refer to note VI " Credit risk mitigation", of the Public Disclosures on Capital Adequacy Standard.

D) Credit quality of credit exposure

The following table represents the credit risk exposure by credit quality of loans and advances by class, grade and status.

KD 000's

	Neither past due nor impaired			Past due but not impaired 0 - 90 days	Impaired	Fair value of collateral
	Superior grade	Good grade	Standard grade			
As at 31 December 2009						
Loans and advances - Corporate	9,567	901,469	918,060	10,563	446,220	82,350
Loans and advances - Banks	1,392	77	6,113	-	37,342	14,353
Loans and advances - Retail	-	402,364	-	-	15,883	-
	10,959	**1,303,910**	**924,173**	**10,563**	**499,445**	**96,703**
As at 31 December 2008						
Loans and advances - Corporate	85,763	1,506,961	484,615	41,443	125,856	44,302
Loans and advances - Banks	1,270	1,197	78,680	-	4,121	-
Loans and advances - Retail	-	372,523	-	1,269	11,644	-
	87,033	**1,880,681**	**563,295**	**42,712**	**141,621**	**44,302**

The Group's risk grading system is a systematic methodology for analysing risk factors associated with the extension of credit. The Group uses the external ratings of credit rating agencies for the assessment of banks and an internal grading for corporate customers. The parameters that are considered while risk grading the customers include financial condition and performance, quality of financial information and management, facility structure, collateral and support arrangements and country risk, where applicable. The system follows a scale of 1 to 10 with 1 being the best risk and 10 being bad. The superior, good and standard grades are determined on the following basis:

	Internal	External
Superior grade	Grades 1 to 4	Ratings AAA, AA & A
Good grade	Grades 5 & 6	Rating BBB
Standard grade	Grades 7 & 8	Below BBB and unrated

E) Concentration of financial assets and off balance sheet items

	2009 KD 000's		2008 KD 000's	
	Assets	Off Balance Sheet	Assets	Off Balance Sheet
Geographic sector				
Kuwait	3,322,125	906,566	3,241,687	1,602,919
Asia	213,893	125,673	905,787	217,525
Europe	4,241	72,223	97,800	89,013
USA	6,232	1,557	11,931	53,295
Others	4,136	2,945	-	16,443
	3,550,627	**1,108,964**	**4,257,205**	**1,979,195**
Industry sector				
Government	361,345	141,537	251,810	127,332
Trade and commerce	337,345	201,526	374,667	774,426
Construction and real estate	669,299	542,445	673,558	477,570
Banks and financial institutions	979,767	97,008	1,715,269	427,260
Others	1,202,871	126,448	1,241,901	172,607
	3,550,627	**1,108,964**	**4,257,205**	**1,979,195**

F) Financial instruments with contractual or notional amounts that are subject to credit risk.

In the ordinary course of business the Parent Bank uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk.

The fair valuation gain or loss of the derivatives held for trading is taken to the consolidated statement of income.

KD 000's

Notional balance - 2009	Fair value	Notional amount by term maturity				
		Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
FX forward contracts	(19)	-	30,128	-	-	30,128
Interest rate swaps	(2)	-	74	-	-	74
	(21)	**-**	**30,202**	**-**	**-**	**30,202**

KD 000's

Notional balance - 2008	Fair value	Notional amount by term maturity				
		Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
FX forward contracts	41	115,459	3,727	-	-	119,186
Interest rate swaps	(11)	-	-	-	213	213
	30	**115,459**	**3,727**	**-**	**213**	**119,399**

(ii) MARKET RISK

Market risk is the risk that the fair value or the future cash flows of the financial instruments will fluctuate due to changes in the market variables such as interest rates, foreign exchange rates and equity prices. For detailed qualitative disclosure on the market risk please refer to note IV(c),"Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

A) Interest rate risk

Interest rate risk arises from the difference in repricing maturities of assets and liabilities. The majority of the Group's assets and liabilities reprice within one year. The Group manages the risk by matching the repricing of assets and liabilities by setting up a tolerance limit. The exposure is regularly measured by reviewing the risk to the set tolerance limit. For detailed qualitative disclosure on the interest rate risk please refer to note IV(e),"Risk management - Interest rate risk", of the Public Disclosures on Capital Adequacy Standard.

The Group's interest sensitivity position and the range of effective rate of interest on its interest bearing assets and liabilities are as follows:

KD 000's

As at 31 December 2009	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	% Effective rate of Interest
ASSETS							
Cash and short term funds	217,520	-	-	-	35,138	252,658	0 - 2
Treasury and Central Bank bonds	104,743	100,188	151,076	5,338	-	361,345	2 - 3
Due from banks and OFIs	149,282	94,121	15,865	-	16,305	275,573	1 - 5
Loans and advances	2,287,424	239,540	5,108	1,346	(126,508)	2,406,910	3 - 8
Investment securities	2,433	8,561	6,608	-	204,542	222,144	1 - 3
Investment in associate	-	-	-	-	3,721	3,721	-
Other assets	1,499	335	46	-	26,396	28,276	-
	2,762,901	**442,745**	**178,703**	**6,684**	**159,594**	**3,550,627**	
LIABILITIES							
Due to banks and OFIs	329,608	244,983	466,147	-	23,276	1,044,014	1 - 3
Customer deposits	981,575	515,475	268,214	5,376	271,269	2,041,909	0 - 3
Other liabilities	7,113	942	562	-	60,002	68,619	-
	1,318,296	**761,400**	**714,923**	**5,376**	**354,547**	**3,154,542**	
Total interest rate sensitive gap	**1,444,605**	**(318,655)**	**(536,220)**	**1,308**			

KD 000's

As at 31 December 2008	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	% Effective rate of Interest
ASSETS							
Cash and short term funds	291,886	-	-	-	27,823	319,709	0 - 4
Treasury and Central Bank bonds	51,452	65,270	129,486	5,339	264	251,811	2 - 4
Due from banks and OFIs	407,024	334,712	182,835	14,590	-	939,161	6 - 7
Loans and advances	2,231,870	167,639	81,640	22,242	(73,010)	2,430,381	4 - 9
Investment securities	2,784	7,826	8,311	-	111,571	130,492	4 - 5
Other assets	28,403	2,677	2,391	-	152,180	185,651	-
	3,013,419	**578,124**	**404,663**	**42,171**	**218,828**	**4,257,205**	
LIABILITIES							
Due to banks and OFIs	638,869	158,178	201,266	-	44,380	1,042,693	3 - 5
Customer deposits	1,198,974	675,581	507,329	1,515	261,441	2,644,840	0 - 5
Other liabilities	4,390	1,300	2,328	545	113,162	121,725	-
	1,842,233	**835,059**	**710,923**	**2,060**	**418,983**	**3,809,258**	
Total interest rate sensitive gap	**1,171,186**	**(256,935)**	**(306,260)**	**40,111**			

Over a period of one year, the impact on the statement of income based on the repricing gap is:

KD 000's

	2009 Impact on statement of income		2008 Impact on statement of income	
	± @1%	± @2%	± @1%	± @2%
Kuwaiti Dinar	9,594	19,188	8,596	17,192
US Dollar	461	921	4	8
Other currencies	32	64	110	220
	± 10,087	**± 20,173**	**± 8,710**	**± 17,420**

B) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views itself as a Kuwaiti entity, with Kuwaiti Dinar as its functional currency. Net exposure in currency is managed by setting overall limits by the Board of Directors and regularly monitoring through technological and managerial controls. Hedging transactions are also used to manage risks in other currencies. For detailed qualitative disclosure on the currency risk refer to note IV(c), "Risk management - Market risk", of the Public Disclosures on Capital Adequacy Standard.

The Group had the following significant net exposures denominated in foreign currencies as at 31 December :

Net assets (liabilities)	**2009** KD 000's	**2008** KD 000's
US Dollar	(4,062)	(1,851)
Euro	(222)	39
Saudi Riyal	1,238	(52)
Swiss Franc	47	342
UAE Dirham	372	338
Sterling Pound	(162)	(11)
Japanese Yen	(1)	-
Others - assets	1,334	1,833
Others - liabilities	(110)	(132)
	(1,566)	**506**

The table below summarises the Group's exposure to foreign currency exchange rate risk. Included in the table are the Group's on and off balance sheet financial instruments at carrying amounts, categorised by currency.

As at 31 December 2009	Kuwaiti dinar (KD 000's)	US dollar (KD 000's)	Other currencies (KD 000's)	Total (KD 000's)
ASSETS				
Cash and short term funds	99,995	138,333	14,330	252,658
Treasury and Central Bank bonds	361,345	-	-	361,345
Due from banks and OFIs	3,261	229,228	43,084	275,573
Loans and advances	2,201,682	191,876	13,352	2,406,910
Investment securities	201,381	19,938	825	222,144
Investment in associates	3,721	-	-	3,721
Other assets	25,935	1,737	604	28,276
	2,897,320	**581,112**	**72,195**	**3,550,627**
LIABILITIES				
Due to banks and OFIs	872,390	126,139	45,485	1,044,014
Customer deposits	1,566,738	455,373	19,798	2,041,909
Other liabilities	51,552	9,271	7,796	68,619
	2,490,680	590,783	73,079	3,154,542
Net on balance sheet financial position	**406,640**	**(9,671)**	**(884)**	**396,085**
Contingent liabilities	**763,534**	**203,857**	**141,573**	**1,108,964**

As at 31 December 2008	Kuwaiti dinar (KD 000's)	US dollar (KD 000's)	Other currencies (KD 000's)	Total (KD 000's)
ASSETS				
Cash and short term funds	124,867	181,651	13,191	319,709
Treasury and Central Bank bonds	251,811	-	-	251,811
Due from banks and OFIs	54,500	875,962	8,699	939,161
Loans and advances	2,219,162	193,213	18,006	2,430,381
Investment securities	102,889	26,827	776	130,492
Other assets	150,041	35,115	495	185,651
	2,903,270	**1,312,768**	**41,167**	**4,257,205**
LIABILITIES				
Due to banks and OFIs	961,878	75,115	5,700	1,042,693
Customer deposits	1,303,312	1,310,514	31,014	2,644,840
Other liabilities	97,206	24,330	189	121,725
	2,362,396	1,409,959	36,903	3,809,258
Net on balance sheet financial position	**540,874**	**(97,191)**	**4,264**	**447,947**
Contingent liabilities	**884,552**	**860,521**	**234,722**	**1,979,795**

The effect on statement of income and equity, as a result of strengthening in currency rate, with all variables held constant is shown below:

KD 000's

As at 31 December 2009	Impact on statment of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	(41)	(82)	175	350
Euro	(2)	(4)	8	16
Saudi Riyal	12	24	-	-
UAE Dirham	4	8	-	-
Qatari Riyal	4	8	-	-
Others	7	14	-	-
	(16)	**(32)**	**183**	**366**

KD 000's

As at 31 December 2008	Impact on statment of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	(19)	(38)	267	534
Euro	-	-	8	16
Bahraini Dinar	5	10	-	-
Saudi Riyal	(1)	(2)	-	-
UAE Dirham	3	6	-	-
Qatari Riyal	2	4	-	-
Others	15	30	-	-
	5	**10**	**275**	**550**

C) Equity price risk

Equity price risk is the risk that the fair value of the equities decrease as the result of changes in the level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. For detailed qualitative disclosure on the equity price risk please refer to note IV(c),"Risk management - Market risk", of the Public Disclosure on Capital Adequacy Standard.

The effect on equity due to reasonable possible changes in equity indices, with all other variables held constant, is as follows:

	KD 000's			
	Impact on statment of income		Impact on equity	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
As at 31 December 2009				
Kuwait Stock Exchange	63	126	1,256	2,512
As at 31 December 2008				
Kuwait Stock Exchange	75	150	309	618

(iii) LIQUIDITY RISK

Liquidity risk is the risk that an institution will be unable to meet its funding requirements. Liquidity risk can arise from market disruptions or credit down grading which may cause certain sources of funding to dry up immediately. For more detailed disclosure on liquidity risk control please refer to note IV(d),"Risk management - Liquidity risk", of the Public Disclosures on Capital Adequacy Standard.

A) The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the date of statement of financial position to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of the liquid funds. It is unusual for Groups to ever completely match the maturities of their assets and liabilities since business transacted is often of uncertain term and of different type. However the management constantly monitors its maturity profile to ensure that adequate liquidity is maintained at all times.

	KD 000's					
As at 31 December 2009	**Up to1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
ASSETS						
Cash and short term funds	252,658	-	-	-	-	252,658
Treasury and Central Bank bonds	360,415	588	342	-	-	361,345
Due from banks and OFIs	156,459	89,856	15,865	12,917	476	275,573
Loans and advances	363,454	712,156	367,935	285,745	677,620	2,406,910
Investment securities	165,976	11	754	2,548	52,855	222,144
Investment in associate	-	-	-	-	3,721	3,721
Premises and equipment	-	-	-	-	26,153	26,153
Goodwill and intangible assets	-	-	-	-	18,517	18,517
Other assets	26,138	333	46	-	1,759	28,276
	1,325,100	**802,944**	**384,942**	**301,210**	**781,101**	**3,595,297**

As at 31 December 2009	KD 000's Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
LIABILITIES						
Due to banks and OFIs	341,155	245,538	246,505	210,816	-	1,044,014
Customer deposits	1,264,569	514,921	165,033	92,008	5,378	2,041,909
Other liabilities	35,835	3,535	3,315	2,953	22,981	68,619
	1,641,559	763,994	414,853	305,777	28,359	3,154,542
Net liquidity gap	**(316,459)**	**38,950**	**(29,911)**	**(4,567)**	**752,742**	**440,755**

As at 31 December 2008	KD 000's Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	319,706	3	-	-	-	319,709
Treasury and Central Bank bonds	251,138	387	286	-	-	251,811
Due from banks and OFIs	407,027	334,712	172,550	10,286	14,586	939,161
Loans and advances	570,450	525,434	385,545	373,394	575,558	2,430,381
Investment securities	63,046	45	1,344	-	66,057	130,492
Premises and equipment	-	-	-	-	30,784	30,784
Goodwill and intangible assets	-	-	-	-	18,662	18,662
Other assets	178,701	2,611	2,392	-	1,947	185,651
	1,790,068	**863,192**	**562,117**	**383,680**	**707,594**	**4,306,651**
LIABILITIES						
Due to banks and OFIs	699,833	141,647	182,126	19,087	-	1,042,693
Customer deposits	1,460,417	675,582	259,408	247,919	1,514	2,644,840
Other liabilities	62,283	6,532	7,546	5,010	40,354	121,725
	2,222,533	823,761	449,080	272,016	41,868	3,809,258
Net liquidity gap	**(432,465)**	**39,431**	**113,037**	**111,664**	**665,726**	**497,393**

(B) Contractual expiry by maturity

KD 000's

	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
As at 31 December 2009						
Contingent Liabilities	**201,149**	**221,279**	**158,513**	**201,450**	**326,573**	**1,108,964**
As at 31 December 2008						
Contingent Liabilities	**245,367**	**308,221**	**327,987**	**688,486**	**409,134**	**1,979,195**

(C) Contractual undiscounted repayment obligations by maturity

KD 000's

As at 31 December 2009	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	341,291	246,372	248,582	214,032	-	1,050,277
Customer deposits	1,265,258	517,085	166,575	93,904	5,575	2,048,397
Other liabilities	35,835	3,535	3,315	2,953	22,988	68,626
	1,642,384	**766,992**	**418,472**	**310,889**	**28,563**	**3,167,300**

KD 000's

As at 31 December 2008	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	700,076	142,771	184,912	19,440	-	1,047,199
Customer deposits	1,462,072	679,057	263,641	257,705	1,668	2,664,143
Other liabilities	62,283	6,532	7,546	5,010	40,354	121,725
	2,224,431	**828,360**	**456,099**	**282,155**	**42,022**	**3,833,067**

27- OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The business and support units have primary responsibility for identifying, assessing and managing their operational risks. They employ internal control techniques to reduce their likelihood or impact to tolerable levels within the Group's risk appetite. Where appropriate, risk is mitigated by way of insurance.

For detailed qualitative disclosure on operational risk control please refer to note IV(f),"Risk management - Operational risk", of the Public Disclosures on Capital Adequacy Standard.

28- SEGMENTAL ANALYSIS

The Group operates in banking brokerage services and investment banking activities, which is 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 & Retail Banking		Treasury & Investment Banking		Total	
	2009	2008	2009	2008	2009	2008
Interest income	141,548	197,936	32,151	59,233	**173,669**	**257,169**
Non interest income	24,669	30,784	28,585	50,636	**53,254**	**81,420**
Total revenues	166,217	228,720	60,736	109,869	**226,953**	**338,589**
Impairment and other provisions	(100,738)	(55,742)	(30,076)	(1,947)	**(130,814)**	**(57,689)**
Net profit/(loss) for the year	9,389	67,406	(9,237)	33,324	**152**	**100,730**
Assets	2,497,587	2,598,483	1,097,710	1,708,168	**3,595,297**	**4,306,651**
Liabilities & Equity	1,061,606	983,232	2,533,691	3,323,419	**3,595,297**	**4,306,651**

29- 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.

(b) Fiduciary assets

The Group manages investment and money market funds as investment manager and trustee, the net asset value of which at 31 December 2009 is KD 95,946 thousand (2008: KD 127,020 thousand).

(c) Legal claims

At the statement of financial position date certain legal claims existed against the Group and for which KD 2,691 thousand (2008: KD 3,109 thousand) has been provided.

30- CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005 are included under the "Public Disclosures on Capital Adequacy Standard" section of the annual report.

31- COMPARATIVE FIGURES

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

The following detailed qualitative and quantitative public disclosures are being provided in accordance with Central Bank of Kuwait rules and regulations on Capital Adequacy Standard-Basel II issued through Circular No. 2/BS/184/2005 on December 21, 2005. The purpose of these disclosures is to complement the above capital adequacy requirements and the supervisory review process. Moreover, these disclosure requirements shall enable and allow market participants to assess key pieces of information about a licensed bank's exposure to risks and provides a consistent and understandable disclosure framework that enhances comparability.

I- Subsidiaries and significant investments

The capital adequacy regulations apply to The Commercial Bank of Kuwait S.A.K. The Bank has two subsidiaries, Union Securities Brokerage Company K.S.C. (Closed) - (80% owned) engaged in brokerage services and Al Tijari Investment Company K.S.C. (Closed) - (100% owned) engaged in investment banking activities and owns 32% interest in Al Cham bank (an associate), a private bank incorporated in Republic of Syria engaged in Islamic banking activities.

The aggregate amount of total interest in an insurance entity, which is credit risk weighted :

	2009			2008		
Name	**Country**	**Ownership%**	**KD 000's**	**Country**	**Ownership%**	**KD 000's**
Al Safat Takaful Insurance Co.	Kuwait	10.00%	334	Kuwait	10.00%	547

The capital ratio would have been 18.21% (2008: 15.52%) as against 18.22% (2008: 15.54%) if the investment in an insurance entity was taken as "deduction from capital base" rather than as "risk weighted exposure".

II- Capital structure

Share Capital – Share capital comprises of 1,272,022,346 (31 December 2008: 1,272,022,346) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2009, the Bank held 70,000 (.01%) (31 December 2008: nil) of its own shares.

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD
31 DECEMBER 2009

The Bank has the following components of Tier 1 and Tier 2 capital base:

	2009 KD 000's	2008 KD 000's
a. Tier 1 capital :		
1. Paid-up share capital	127,202	127,202
2. Proposed bonus shares	-	-
3. Share premium	66,791	66,791
4. Statutory reserve	63,601	63,601
5. General reserve	17,927	17,927
6. Retained earnings	91,960	91,814
7. Own share reserve	45,603	45,603
8. Minority interests in consolidated subsidiaries	816	691
9. Goodwill	(1,765)	(1,765)
10. Significant minority investments in banking entities	(3,721)	(4,835)
11. Surplus capital from insurance companies	-	-
12. Treasury Shares	(75)	-
Total tier 1 capital	**408,339**	**407,029**

	2009 KD 000's	2008 KD 000's
b. Tier 2 capital.		
1. Asset revaluation reserve (45% only)	9,701	11,401
2. Fair value reserve (45% only with the concurrence of external auditors)	2,418	3,397
3. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	29,310	35,305
4. Subordinated loan	-	-
Total tier 2 capital	**41,429**	**50,103**
Total eligible capital	**449,768**	**457,132**

III- Capital adequacy

The Standardised Approach has been adopted for computation of capital charge for credit risk, market risk and operational risk. Assessment of capital adequacy is carried out in conjunction with the capital adequacy reporting to Central Bank of Kuwait. The Bank has in place a framework for planning, assessing and reporting for capital adequacy and to ensure that the present and future operations of the Bank are supported by adequate capital at all times. The Bank monitors its capital adequacy against higher internal floor limits. In addition, evaluation of any strategic initiative necessarily includes appraisal of capital adequacy requirements. Internal assessment of capital has been enhanced through introduction of a framework for measuring economic capital for each risk type and on an enterprise-wide basis.

A) Capital requirement

	2009 KD 000's			2008 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
a. Credit risk						
1. Cash items	35,144	-	-	170,215	-	-
2. Claims on sovereigns	406,467	-	-	280,909	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	13,689	2,738	329
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	525,723	111,925	13,431	1,521,580	548,716	65,846
7. Claims on corporates	1,626,246	855,624	102,675	2,523,177	1,087,415	130,490
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	444,274	400,045	48,005	411,207	371,501	44,580
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	257,171	209,489	25,139	26,795	12,779	1,533
12. Other assets	1,459,565	706,997	84,840	1,394,543	731,561	87,787
Total	**4,754,590**	**2,284,080**	**274,090**	**6,342,115**	**2,754,710**	**330,565**

	2009 KD 000's			2008 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
b. Market risk						
1. Interest rate position risk	-	-	-	-	-	-
2. Equities position risk	6,287	8,379	1,005	7,598	10,127	1,215
3. Foreign exchange risk	4,555	3,035	364	2,558	1,705	205
4. Commodities risk	-	-	-	-	-	-
5. Options	-	-	-	-	-	-
Total	**10,842**	**11,414**	**1,369**	**10,156**	**11,832**	**1,420**
c. Operational risk	145,819	173,250	20,790	147,351	175,276	21,033
Total	**4,911,251**	**2,468,744**	**296,249**	**6,499,622**	**2,941,818**	**353,018**

B) Capital ratios

	2009	2008
1. Total capital ratio	18.22%	15.54%
2. Tier 1 capital ratio	16.54%	13.84%

IV- Risk Management

(a) Risk Governance

The Risk Management division of the Bank is an independent and dedicated function reporting to the Chief General Manager & CEO. The division is responsible for assessing, monitoring and recommending strategies for control of credit, market, liquidity and operational risks. Specific personnel are assigned within the Risk Management division for overseeing each of these risks. The absence of any direct or indirect reporting lines or arrangements with other internal divisions, and permanent membership in all of the Bank's executive committees are amongst the factors which reflect the independent nature of Risk Management's operations and the central role it maintains within the Bank.

The risk management framework includes a hierarchy of committees involving the Board of Directors and the executive management for approval and reporting purposes. The Board of Directors through its committees has the overall authority for approval of strategies and policies. The Board Loan Committee (BLC) is the apex credit approving authority of the Bank which is mainly responsible for approving all credit proposals beyond the authority level of the management and also for reviewing and approving the credit policy and amendments thereof. The Board Executive Committee (BEC) is the apex authority of the Bank for approving investments and other executive matters beyond the authority of the management. These include approval of bankwide strategies as well as specific policies pertaining to risk management.

The Credit Committee is the executive management decision making body which is empowered to consider all credit related issues within certain limits. The Asset Liability Committee (ALCO) is responsible for the overall asset liability management framework which broadly covers balance sheet structure, maturity profile, interest rate risk, capital adequacy and foreign currency positions, review of related policies and approval of exceptions. The ALCO also performs the role of a risk committee whereby it has high level oversight over the risk management process. The Investment Committee is an executive level decision-making committee for all investment issues. The Provisioning Committee is responsible for the overall evaluation and control of provisions taken by the Bank and adherence to the related regulatory requirements.

In order to manage risks in a holistic manner and to measure risks on a consolidated basis, the Bank has a formal enterprise wide risk management policy, which provides detailed guidelines for a sound framework for bank wide risk management. The objectives of risk management are supported by various risk policies that are reviewed and updated regularly. The risk policies, in general, cater to detailed planning for various risks based on business strategies, past performance, future expectations, economic conditions and, internal as well as external regulations. The policies also require comprehensive analysis of a set of pre-determined parameters prior to introduction of new products or instruments. The policies have put in place internal limits (nominal as well as risk based) for continuous monitoring and ensuring that risks are maintained within the Bank's risk appetite. Periodical reporting of risks to various authorities including the ALCO and the BEC ensures that the executive management and the Board are continuously kept aware of positions thereby enabling informed decision-making.

The risk policies also address the need for hedging under certain circumstances. The measurement of hedge effectiveness is governed by the related policy on hedging which lays down guidelines for establishment of hedge, method of determining hedge effectiveness at inception and thereafter and other general rules for hedge transactions.

(b) Credit Risk

Credit risk is monitored through a system of independent credit appraisals, macro analysis of the credit portfolio, grading of counterparties and monitoring of concentration limits. Independent credit appraisals cover detailed review of credit proposals prior to approval in order to provide an objective credit evaluation of the inherent credit risks to assist the approving authorities in making their credit decisions. In addition, comprehensive reviews at the individual and portfolio levels are undertaken after approval to effectively monitor / control the existing credit portfolio.

The Bank's risk grading system is a systematic methodology for analyzing risk factors associated with the extension of credit. The parameters that are considered while risk grading the customers include financial condition and performance, quality of financial information and management, facility structure, collateral and support arrangements and country risk, where applicable. The system follows a scale of 1 to 10 with 1 being the best risk and 10 being bad. Maximum counterparty/group wise lending limits are applied to exposures according to Central Bank of Kuwait norms for credit concentration i.e. the maximum limit for credit exposure of any single customer shall not exceed 15% of the bank's capital base.

Appropriate risk analysis ensures that the limits approved are commensurate with the risk profile of the borrower. Apart from individual lending limits, broader portfolio level exposure limits have been stipulated for perceived higher risk sectors and exposures to these segments are continuously monitored. There are also country limits in place to ensure adequate portfolio diversification in terms of sovereign ratings and geographical exposures. The credit policy provides guidelines that establish lending criteria and all credit decisions are made after giving due consideration to credit policy requirements. Continuous review and update of the credit policy is carried out to calibrate with regulatory and business requirements. Retail lending is strictly controlled by applicable Central Bank of Kuwait guidelines which include individual lending limit.

The credit policy is supplemented by the credit risk management policy which establishes the infrastructure for credit risk management including tools for risk grading, portfolio analysis and independent reviews. Internal limits are also established for credit concentrations and credit quality. Credit risk measurement at portfolio level is facilitated with the introduction of an infrastructure for computing probability of default, loss given default and exposure at default. Calculation of capital for credit risk concentration has been introduced under Pillar two of Basel II.

(c) Market Risk

Market risk is the potential for loss resulting from adverse movements in market related factors such as foreign exchange rates, security prices, interest rates and commodity prices. Market risk exposure for the Bank is evident in portfolios of equities and foreign exchange that are actively traded, as well as in other positions whose fair values are directly derived from market parameters.

Market risk limits are in place to control the equity and foreign exchange risks. The Bank also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the observation period of 1250 business days and computes the maximum possible loss over a 10-day holding period at the 99th percentile. VaR is measured against internal limits that are in place for maximum tolerance that is allowed separately for foreign exchange and equity trading positions. The VaR model is back-tested annually against actual results to verify its robustness. In addition, internal calculations are performed for capital for market risk including concentrations therein based on the VaR model.

Foreign exchange risks are monitored daily through currency-wise absolute limits as well as stop-loss limits. Over-night regulatory limits that include overall absolute limits are strictly enforced. Investment proposals are subject to independent review by Risk Management prior to approval in order to identify the major risks and recommend appropriate mitigants. Equity risks in the trading portfolio are monitored daily through internal tolerance levels such as absolute portfolio size limit, stop loss limits and concentration limits. Investments are classified under pre-defined asset categories and are subject to pre-approved limits for such categories. Further, the bank's overall investment capacity as well as individual investments are restricted to stipulated limits and guidelines laid down by Central Bank of Kuwait.

(d) Liquidity Risk

Liquidity risk is the current and prospective risk to earnings and capital arising from the Bank's inability to meet its obligations as they become due without incurring significant losses. It includes the inability to manage unplanned decreases or changes in funding sources and can also arise from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Limits are set in place for the maximum allowable cumulative mismatches based on gap reports as well as absolute limits such as loan to deposit ratio. In order to have greater control over liquidity risk, internal alerts are generated based on pre-determined limits to ensure continued adherence to the regulatory limits. Liquidity risk management is further enhanced through the introduction of limits that attempt to restrict concentration of deposits from a single customer and also deposits maturing within specific time-bands thereby making available diversified sources of funding. A detailed liability-side analysis is conducted periodically to discern rollover patterns, identify core deposits, behavioural trends in short-term funds and correlations with macro-economic variables.

Further, the Bank's liquidity policy requires that proper liquidity planning is periodically conducted and that stress tests are performed based on scenario analyses. A detailed contingency plan also forms part of the liquidity management framework. Detailed methodology for calculation of capital for liquidity risk under pillar two has been introduced.

(e).Interest Rate Risk

Interest rate risk arises from changes in interest rates that may have an adverse impact on the Bank's profits and on the market value of its assets and liabilities. The major sources of interest rate risk are repricing risk, yield curve risk, options risk and basis risk.

Interest rate risk in the trading book is managed in accordance with the market risk management policy. The interest rate risk management policy lays down the minimum guidelines for the Bank's exposures in the banking book. The majority of assets and liabilities of the Bank mature within one year and hence, there is limited exposure to interest rate risk. This risk is monitored with the help of an interest rate sensitivity monitor (IRSM) which reflects the distribution of assets and liabilities in pre-defined maturity/repricing time bands. Earnings at risk are computed by applying pre-defined rate shocks to the IRSM and these are measured against internal limits that define the Bank's appetite for this risk. In addition, the economic value of equity is required to be analysed under certain pre-defined circumstances. Detailed methodology for calculation of capital for interest rate risk has been introduced.

(f). Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, systems and people or from external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws, contractual obligations and lack of due diligence in the formulation of documents and contracts. It also includes the exposure to litigation from all aspects of the Bank's activities. The definition does not include strategic or reputational risks
Operational risk management is focused on minimizing risk events that arise through inadequate processes, human error, system as well as external factors by using a range of assessment methods including control self assessments and workshops, and through review of bankwide procedures. An objective scorecard has been introduced that assesses various operational risk areas based on pre-defined parameters and grades them under certain categories. Insurance management which is integrated into this system facilitates prudent transfer of risks. Internally maintained loss data, consolidated principally from incidence reporting channels, provides information on frequency and impact of operational risk events. A bankwide disaster recovery plan is prepared to tackle any unforeseen contingencies and aims to ensure that business continuity is achieved with minimal disruption to critical processes and systems.

Insurance coverage provides partial mitigation for operational risk. The operational risk management policy lays down general guidelines for insurance management including factors to be considered in structuring insurance policies, credit risk of insurer, definition of policy limits and deductibles, policy reviews and handling claims.

(g). Other Risks

Policies have been introduced for other risks including legal risk, strategic risk and reputational risk. These policies establish roles and responsibilities for various stakeholders in managing and controlling these risks. In addition, quantification methodologies have been introduced for measuring capital for these risks.

V Credit exposures

The credit policy of the Bank lays down the general lending standards as well as specific policies pertaining to different lending areas. Among others, the credit policy defines the lending criteria, approval process for various credit decisions, documentation requirements, margin requirements etc. The credit policy also includes a formal credit approval hierarchy designed on the basis of amount/tenor other features of the credit facility(ies) considered is in place for making suitable credit decisions. All credit decisions made at lower levels of the hierarchy are reviewed by the highest approval authority the BLC.

Loans and receivables are subject to credit risk provision for loan impairment if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amount recoverable from guarantee and collateral, discounted based on the original effective interest rate and current interest rate for fixed and floating rate loans respectively. The amount of loss arising from impairment is taken to the statement of income.

Past due and impaired exposures are defined in accordance with the relevant Central Bank of Kuwait regulations. Specific and general provisions are computed in accordance with Central Bank of Kuwait regulations on provisioning as well as the applicable accounting standards. The Central Bank of Kuwait regulations pertaining to specific provisioning differentiate between facilities for retail, corporate and sovereign and specific rules and principles are accordingly applied for performing and non-performing facilities as follows:

	Irregularity period	
Category & provision required	**Consumer & installment loans**	**Others excluding sovereign loans**
Special mention - at discretion of management	Not exceeding 3 months	Upto 90 days
Substandard – 20% provision	3 months and less than 6 months	91-180 days
Doubtful – 50% provision	6 months and less than 12 months	181-365 days
Bad – 100% provision	12 months and more and clients under legal action	More than 365 days

In addition, minimum general provision has to be carried at 1% of the cash credit facilities and 0.5% for non-cash credit facilities, where no specific provision has been taken, in accordance with these regulations. Apart from the required general provision, portfolio provision which represent additional general provision is made on certain portfolios. Such portfolios are identified based on certain criteria such as economic sector, group of watch list accounts, country risk etc. The rationale behind portfolio provision is to make the general provision more forward looking and also to take into account any possible loan-losses in future due to business cycle effects.

External Credit Assessment Institutions (ECAIs) used for capital adequacy computation are in accordance with Central Bank of Kuwait rules and regulations pertaining to the capital adequacy standard. The permissible ECAIs under the regulations are Moody's, Standard & Poor and Fitch. The public issue ratings are translated into specific risk weights in line with the mapping process defined in the same regulations. The mapping process involves application of stipulated risk weights for different public issue ratings as laid out in the regulations. Separate mapping notations are applicable for different categories of claims which are further classified, in case of claims on banks, into short-term and long-term exposures.

(a) Gross credit exposures

	2009 KD 000's			2008 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	35,144	35,144	-	170,215	170,215	-
2. Claims on sovereigns	406,467	406,467	-	280,909	280,909	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	13,689	13,689	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	525,723	433,484	92,239	1,521,580	1,145,302	376,278
7. Claims on corporates	1,626,246	719,950	906,296	2,523,177	1,009,574	1,513,603
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	444,274	424,231	20,043	411,207	398,254	12,953
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	257,171	256,789	382	26,795	24,928	1,867
12. Other assets	1,459,565	1,369,561	90,004	1,394,543	1,320,049	74,494
	4,754,590	**3,645,626**	**1,108,964**	**6,342,115**	**4,362,920**	**1,979,195**

(b) Average gross credit exposures

	2009 KD 000's			2008 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	75,484	75,484	-	78,597	78,597	-
2. Claims on sovereigns	333,619	333,619	-	288,318	288,318	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	4,563	4,563	-	4,563	4,563	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	970,097	733,592	236,505	1,681,162	1,288,325	392,837
7. Claims on corporates	2,027,275	850,075	1,177,200	2,774,842	1,296,001	1,478,841
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	433,035	415,382	17,653	400,779	388,432	12,347
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	185,428	176,503	8,925	21,147	20,525	622
12. Other assets	1,408,921	1,329,873	79,048	1,035,301	973,784	61,517
	5,438,422	**3,919,091**	**1,519,331**	**6,284,709**	**4,338,545**	**1,946,164**

(c) Total credit exposures by geographic sector

	KD 000's					
As at 31 December 2009	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	35,144	-	-	-	-	**35,144**
2. Claims on sovereigns	406,467	-	-	-	-	**406,467**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	266,496	223,585	28,836	3,748	3,058	**525,723**
7. Claims on corporates	1,490,570	81,370	49,853	319	4,134	**1,626,246**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	444,058	177	32	-	7	**444,274**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	226,604	29,827	737	1	2	**257,171**
12. Other assets	1,451,327	3,084	2,197	2,957	-	**1,459,565**
	4,320,666	**338,043**	**81,655**	**7,025**	**7,201**	**4,754,590**
Percentage of credit exposure by geographical sector	**90.9%**	**7.1%**	**1.7%**	**0.1%**	**0.2%**	**100.0%**

	KD 000's					
As at 31 December 2008	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	170,215	-	-	-	-	**170,215**
2. Claims on sovereigns	280,909	-	-	-	-	**280,909**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	13,689	-	-	-	-	**13,689**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	146,382	1,108,284	186,986	7,892	72,036	**1,521,580**
7. Claims on corporates	2,385,846	47,843	89,484	4	-	**2,523,177**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	411,207	-	-	-	-	**411,207**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	25,676	1,119	-	-	-	**26,795**
12. Other assets	1,382,285	3,438	2,782	6,038	-	**1,394,543**
	4,816,209	**1,160,684**	**279,252**	**13,934**	**72,036**	**6,342,115**
Percentage of credit exposure by geographical sector	**75.9%**	**18.3%**	**4.4%**	**0.2%**	**1.1%**	**100.0%**

(d) Funded credit exposures by geographic sector

As at 31 December 2009	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	35,144	-	-	-	-	**35,144**
2. Claims on sovereigns	406,467	-	-	-	-	**406,467**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	265,602	160,555	4,697	2,510	120	**433,484**
7. Claims on corporates	695,111	18,904	1,801	-	4,134	**719,950**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	424,231	-	-	-	-	**424,231**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	226,222	29,827	737	1	2	**256,789**
12. Other assets	1,361,323	3,084	2,197	2,957	-	**1,369,561**
	3,414,100	**212,370**	**9,432**	**5,468**	**4,256**	**3,645,626**
Percentage of funded credit exposure by geographical sector	**93.6%**	**5.8%**	**0.3%**	**0.1%**	**0.1%**	**100.0%**

As at 31 December 2008	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	170,215	-	-	-	-	**170,215**
2. Claims on sovereigns	280,909	-	-	-	-	**280,909**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	13,689	-	-	-	-	**13,689**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	143,710	891,113	102,750	7,505	224	**1,145,302**
7. Claims on corporates	1,001,288	4,768	3,518	-	-	**1,009,574**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	398,254	-	-	-	-	**398,254**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	23,809	1,119	-	-	-	**24,928**
12. Other assets	1,307,791	3,438	2,782	6,038	-	**1,320,049**
	3,339,665	**900,438**	**109,050**	**13,543**	**224**	**4,362,920**
Percentage of funded credit exposure by geographical sector	**76.5%**	**20.6%**	**2.5%**	**0.3%**	**0.0%**	**100.0%**

(e) Unfunded credit exposures by geographic sector

	KD 000's					
As at 31 December 2009	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	894	63,030	24,139	1,238	2,938	**92,239**
7. Claims on corporates	795,459	62,466	48,052	319	-	**906,296**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	19,827	177	32	-	7	**20,043**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	382	-	-	-	-	**382**
12. Other assets	90,004	-	-	-	-	**90,004**
	906,566	**125,673**	**72,223**	**1,557**	**2,945**	**1,108,964**
Percentage of unfunded credit exposure by geographical sector	**81.7%**	**11.3%**	**6.5%**	**0.1%**	**0.3%**	**100.0%**

	KD 000's					
As at 31 December 2008	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	2,672	217,171	84,236	387	71,812	**376,278**
7. Claims on corporates	1,384,558	43,075	85,966	4	-	**1,513,603**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	12,953	-	-	-	-	**12,953**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	1,867	-	-	-	-	**1,867**
12. Other assets	74,494	-	-	-	-	**74,494**
	1,476,544	**260,246**	**170,202**	**391**	**71,812**	**1,979,195**
Percentage of unfunded credit exposure by geographical sector	**74.6%**	**13.1%**	**8.6%**	**0.0%**	**3.6%**	**100%**

(f) Total credit exposures by residual maturity

As at 31 December 2009	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
	KD 000's					
1. Cash items	35,144	-	-	-	-	**35,144**
2. Claims on sovereigns	149,704	100,258	88,557	62,606	5,342	**406,467**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	343,080	132,237	20,891	20,108	9,407	**525,723**
7. Claims on corporates	214,986	322,803	267,600	335,698	485,159	**1,626,246**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	3,880	7,612	8,206	9,880	414,696	**444,274**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	227,425	29,718	-	-	28	**257,171**
12. Other assets	379,077	483,878	163,399	109,968	323,243	**1,459,565**
	1,353,296	**1,076,506**	**548,653**	**538,260**	**1,237,875**	**4,754,590**
Percentage of total credit exposures by residual maturity	**28.5%**	**22.6%**	**11.5%**	**11.3%**	**26.0%**	**100.0%**

As at 31 December 2008	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
	KD 000's					
1. Cash items	170,215	-	-	-	-	**170,215**
2. Claims on sovereigns	80,758	65,288	70,065	59,457	5,341	**280,909**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	13,689	-	-	**13,689**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	631,542	363,852	215,867	258,034	52,285	**1,521,580**
7. Claims on corporates	214,636	468,206	465,463	710,161	664,711	**2,523,177**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	14,012	4,886	5,324	7,774	379,211	**411,207**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	4,899	21,513	-	355	28	**26,795**
12. Other assets	408,238	203,059	148,750	120,235	514,261	**1,394,543**
	1,524,300	**1,126,804**	**919,158**	**1,156,016**	**1,615,837**	**6,342,115**
Percentage of total credit exposures by residual maturity	**24.0%**	**17.8%**	**14.5%**	**18.2%**	**25.5%**	**100%**

(g) Funded credit exposures by residual maturity

KD 000's

As at 31 December 2009	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	35,144	-	-	-	-	**35,144**
2. Claims on sovereigns	149,704	100,258	88,557	62,606	5,342	**406,467**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	314,451	88,860	15,864	12,917	1,392	**433,484**
7. Claims on corporates	79,389	155,054	134,409	180,524	170,574	**719,950**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	616	2,350	4,796	5,275	411,194	**424,231**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	227,043	29,718	-	-	28	**256,789**
12. Other assets	345,800	478,987	146,514	75,488	322,772	**1,369,561**
	1,152,147	**855,227**	**390,140**	**336,810**	**911,302**	**3,645,626**
Percentage of funded credit exposures by residual maturity	**31.6%**	**23.5%**	**10.7%**	**9.2%**	**25.0%**	**100.0%**

KD 000's

As at 31 December 2008	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	170,215	-	-	-	-	**170,215**
2. Claims on sovereigns	80,758	65,288	70,065	59,457	5,341	**280,909**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	13,689	-	-	**13,689**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	617,667	330,210	172,548	10,287	14,590	**1,145,302**
7. Claims on corporates	21,371	208,955	208,211	274,997	296,040	**1,009,574**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	11,476	1,711	3,215	4,910	376,942	**398,254**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	3,032	21,513	-	355	28	**24,928**
12. Other assets	374,414	190,906	123,443	117,524	513,762	**1,320,049**
	1,278,933	**818,583**	**591,171**	**467,530**	**1,206,703**	**4,362,920**
Percentage of funded credit exposures by residual maturity	**29.3%**	**18.8%**	**13.5%**	**10.7%**	**27.7%**	**100%**

(h) Unfunded credit exposures by residual maturity

As at 31 December 2009 (KD 000's)	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	28,629	43,377	5,027	7,191	8,015	**92,239**
7. Claims on corporates	135,597	167,749	133,191	155,174	314,585	**906,296**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	3,264	5,262	3,410	4,605	3,502	**20,043**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	382	-	-	-	-	**382**
12. Other assets	33,277	4,891	16,885	34,480	471	**90,004**
	201,149	**221,279**	**158,513**	**201,450**	**326,573**	**1,108,964**
Percentage of unfunded credit exposures by residual maturity	**18.1%**	**20.0%**	**14.3%**	**18.2%**	**29.4%**	**100.0%**

As at 31 December 2008 (KD 000's)	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	13,875	33,642	43,319	247,747	37,695	**376,278**
7. Claims on corporates	193,265	259,251	257,252	435,164	368,671	**1,513,603**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,536	3,175	2,109	2,864	2,269	**12,953**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	1,867	-	-	-	-	**1,867**
12. Other assets	33,824	12,153	25,307	2,711	499	**74,494**
	245,367	**308,221**	**327,987**	**688,486**	**409,134**	**1,979,195**
Percentage of unfunded credit exposures by residual maturity	**12.4%**	**15.6%**	**16.6%**	**34.8%**	**20.7%**	**100%**

(i) Impaired loans by standard portfolio

	2009 KD 000's			2008 KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	77,512	(77,512)	-	72,692	(72,692)	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	37,413	(20,550)	16,863	4,121	(4,121)	-
7. Claims on corporates	368,709	(132,953)	235,756	53,164	(32,396)	20,768
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	15,883	(11,712)	4,171	11,644	(7,484)	4,160
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	499,517	**(242,727)**	**256,790**	**141,621**	**(116,693)**	**24,928**

(j) General provision and provisions charged to statement of income by standard portfolio

	2009 KD 000's		2008 KD 000's	
	General Provision	Statement of Income	General Provision	Statement of Income
1. Cash items	-	-	-	-
2. Claims on sovereigns	-	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	-	20,003	-	-
7. Claims on corporates	52,971	78,566	66,746	28,995
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	6,111	2,082	5,267	780
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	15,953	-	15,107	-
	75,036	**100,651**	**87,120**	**29,775**

(k) Impaired loans and provisions by geographic sector

	2009 KD 000's			2008 KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
Kuwait	364,713	(137,007)	227,706	50,546	(25,619)	24,927
Asia	41,705	(12,621)	29,084	4,363	(4,363)	-
Europe	3,374	(3,374)	-	2,278	(2,278)	-
USA	12,213	(12,213)	-	11,741	(11,741)	-
Others	77,512	(77,512)	-	72,692	(72,692)	-
	499,517	**(242,727)**	**256,790**	**141,620**	**(116,693)**	**24,927**

General provision as at 31 December 2009 amounting to KD 75,036 thousand (2008: KD 87,120 thousand) is related to Kuwait.

(l) Movement in provisions

	2009 KD 000's			2008 KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	116,693	87,120	203,813	106,323	65,070	171,393
Write-offs	(3,089)	-	(3,089)	(3,248)	-	(3,248)
Exchange differences	5,640	-	5,640	5,095	-	5,095
Recoveries	2,614	-	2,614	1,569	-	1,569
Ceded to Central Bank	(4,316)	-	(4,316)	(123)	-	(123)
Statement of income	125,185	(12,084)	113,101	7,077	22,050	29,127
Provisions 31 December	**242,727**	**75,036**	**317,763**	**116,693**	**87,120**	**203,813**

(m) Credit exposures after CRM and CCF

	2009 KD 000's Credit Exposures after CRM		2008 KD 000's Credit Exposures after CRM	
	Rated Exposures	Unrated Exposures	Rated Exposures	Unrated Exposures
1. Cash items	-	35,144	-	170,215
2. Claims on sovereigns	-	406,627	-	281,880
3. Claims on international org.	-	-	-	-
4. Claims on PSEs	-	-	-	13,689
5. Claims on MDBs	-	-	-	-
6. Claims on banks	202,821	272,842	551,436	669,231
7. Claims on corporates	-	916,326	-	1,157,140
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	-	404,344	-	374,037
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	222,576	-	13,769
12. Other assets	-	600,334	-	650,549
	202,821	**2,858,193**	**551,436**	**3,330,510**

VI- Credit risk mitigation

No netting, whether on-balance sheet or off-balance sheet, has been used for the capital adequacy computation process.
The credit policy of the Bank lays down guidelines for collateral valuation and management which includes, minimum coverage requirement for different categories of collateral, remargining, frequency and basis of revaluation, documentation, insurance, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also in cases where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business divisions to ensure objectivity. An independent annual analysis is conducted by Risk Management Division to categorize the shares acceptable as collateral into different grades for the purpose of stipulating differential margin requirements.

Acceptable collateral includes cash, bank guarantees, shares, real estate etc. subject to specific conditions on eligibility, margin requirements etc. laid down in the credit policy. The credit risk mitigation used for capital adequacy computation include collateral in the form of cash and shares as well as guarantees in accordance with the Central Bank of Kuwait rules and regulations concerning capital adequacy standard. For the purpose of capital adequacy computation, the main type for guarantor counterparty is banks with acceptable ratings and local quoted shares formed the major type of collateral forming the bulk of the credit risk mitigation used for capital adequacy.

The collateralised credit exposure with eligible collateral by standard portfolio are as follows:

As at 31 December 2009	KD 000's Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	35,144	-	-	-
2. Claims on sovereigns	406,467	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	525,723	-	-	-
7. Claims on corporates	1,626,246	516,231	195,132	-
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	444,274	12,279	28,577	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	257,171	62,958	34,289	-
12. Other assets	1,459,565	866,961	806,552	-
	4,754,590	**1,458,429**	**1,064,550**	-

As at 31 December 2008	KD 000's Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	170,215	-	-	-
2. Claims on sovereigns	280,909	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	13,689	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	1,521,580	-	-	-
7. Claims on corporates	2,523,177	349,250	385,309	-
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	411,207	36,428	29,411	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	26,795	17,105	11,532	-
12. Other assets	1,394,543	907,228	691,348	-
	6,342,115	**1,310,011**	**1,117,600**	-

VII- Capital requirement for market risk

The present market risk exposure comprises of foreign exchange and equity trading portfolio. The capital charge for the entire market risk exposure is computed under the standardized approach.

The capital requirement for market risk exposure is as follows:

	2009 KD 000's	2008 KD 000's
1. Interest rate position risk	-	-
2. Equity position risk	1,005	1,215
3. Foreign exchange risk	364	205
4. Commodities risk	-	-
5. Options	-	-
	1,369	**1,420**

VIII- Operational risk

The Bank uses the standardised approach for computation of operational risk capital charge that amounted to KD 20,790 thousand (2008: KD 21,033 thousand) which primarily involves segregating the Bank's activities into eight business lines and applying the relevant beta factors to the average gross income for each business line as defined in the Central Bank of Kuwait rules and regulations pertaining to capital adequacy standard. However, capital for operational risk is separately calculated for pillar two purposes using a variation of the standardised approach based on the results of the operational risk scorecard introduced during the year.

IX- Equity position

The majority of equity holdings are taken with the expectation of capital gains and dividend income. Certain holdings in the funds managed by the Bank are taken to comply with regulations that require the Bank as fund manager to hold at a minimum 5% of the outstanding issued units. Strategic equity holdings are taken in financial institutions where the Bank expects to develop a business relationship or ultimately gain control of that entity.

Equity investment securities in the banking book are classified as "available for sale". These are carried at fair value with any resultant gain or loss arising from changes in fair value taken to the fair valuation reserve in other comprehensive income. When the "available for sale" investment is disposed off or impaired, any prior fair value adjustments earlier reported in other comprehensive are transferred to the statement of income.

Fair values are determined by reference to quoted market prices. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on last published bid price. The fair value for unquoted investments are determined by reference to the market value of a similar investment, on the expected discounted cash flows, other appropriate valuation models or brokers' quotes. The Bank treats "available for sale" equity holdings as impaired when there has been "significant" or "prolonged" decline in the fair value below its cost.

The quantitative information related to equity investment securities in banking book are as follows:

	2009 KD 000's	2008 KD 000's
1. Value of investment disclosed in the balance sheet	**165,530**	**83,427**
2. Type and nature of investment securities available for sale		
- Equity securities -quoted	126,566	31,879
- Equity securities -unquoted	38,964	51,548
	165,530	**83,427**
3. Cumulative realised gains (net) arising from sales of investment securities	**18,192**	**39,301**
4. Total unrealised gains (net) recognised in the balance sheet but not through profit and loss account	**2,281**	**(2,775)**
5. 45% of item (4) included in Tier 2 capital	**1,026**	-
6. Capital requirements		
Available for sale	**19,713**	**9,678**

X- Interest rate risk in the banking book

Interest rate risk management in the banking book is governed by the interest rate risk management policy of the Bank. The policy lays down guidelines for interest rate risk planning, reporting and hedging. Various interest rate risk limits are also put in place. The policy also clearly defines the responsibilities of various committees and divisions in the context of interest rate risk management. Ongoing monitoring of interest rate risk in the banking book involves monthly generation of the interest rate sensitivity monitor (IRSM) which classifies all assets and liabilities into pre-defined time-bands. The classification of the assets and liabilities is based on guidelines laid in the policy which reflect the maturity / repricing characteristics of the underlying exposure.

Over a period of one year, the impact on net interest income based on repricing gaps is:

	2009		2008	
	KD 000's		KD 000's	
	Impact on earnings		Impact on earnings	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
Kuwaiti dinars	9,594	19,188	8,596	17,192
US dollars	461	921	4	8
Other currencies	32	64	110	220
	±10,087	**± 20,173**	**± 8,710**	**± 17,420**

Branches Network

	Telephone	FAX
Mubarak Al Kabeer (Head Office)	22411001/22411050	22464870
Abdulla Mubarak Area	22990059/22990152	22990193
Abdulla Mubarak Street	22438190	22404826
Abu Halefa (Kuwait Magic)	23720408	23720449
Airport (Departure)	24746492	24741951
Airport (Arrival)	24746492	24741951
Airport (Customs)	24712088	24712033
Ali Sabah Al Salem (Um Al Heiman)	23280661	23280662
Andalous	22990036	24889129
Ardhiya	24885381	24887316
Bneid Al Gar	22990052	22562675
Daher	23830724/23830725	23830726
Dasma	22990102/22990108	22990025
Dhow Tower	22412011	22411961
East Ahmadi	23980254	23980434
Fahad Al Salem	22990009	22990011
Fahaheel	23911308	23923779
Fahaheel (Ajyal Complex)	23913904/23913903	23913905
Farwaniya	22990027	24723493
Hadiya	22990007	22990232
Hawalli	22630696	22616451
Hawalli (Beirut St.)	22994420	22621904
Hawalli (Mohalab Center)	22640230	22640606
Jaber Al Ali	23849883	23840191
Jabriya	25330793	25334632
Jahra	24552447	24551580
Kaitan	24745994	24745584
Khaldiya	24841128	24810549
Kuwait Free Zone	24610000/24610061	24610062
Labor Unit	24344044	24335856
Mansoriya	22573990	22573880
Ministries Complex	22474150	22474151
Naeem	24571776	24571797
Omariya	24711465	24723487
Qurain	25440037	25440035
Rabia	22990057	24719677
Rai	22990045	22990329
Ras Al-Salmiya	25719575	25719570
Rumaithiya	25623726	25654902
Sabah Al Salem	22990054	22990354
Sabahiya	23618732	23613069
Salhiya	22465208	22463492
Salmiya	25734514	25727053
Salwa	22990051	25610780
Sharq	22454879	22454869
Shuwaikh	24814643	24837952
Sixth Ring Road	24344044	24345382
Souk Salmiya	25737327	25737326
Sour Street	22990182/22990184	22418997
South Surra (Al Salam)	22990055	22990355
Sulaibikhat	24870989	24877318
Trader's Mall	22990053	22475019
Vegetable Market	24838667	24817859
West Meshref	25379272	25379277
Yarmouk	25352181	25352182