Board of Directors

Bader Sulaiman Al Ahmed
Chairman

Ali Yousef Al Awadhi
Deputy Chairman

Ahmad Mohammed Al Mishari
Member

Tareq Farid Al Othman
Member

Anoud Fadil Al Hathran
Member

Fowzi Abdul Mohsen Al Ateeqi
Secretary to the Board

Introduction

Al-Tijari... My Choice

Commercial Bank of Kuwait is a renowned financial institution that was established in 1960. The Bank offers its customers a wide spectrum of corporate, retail, investment and financial services. In June 2010 the Bank celebrated its 50th Anniversary.

As the second oldest Bank in Kuwait, Commercial Bank has a predominant position in the market with a large client base. The Bank is operating the second large full services branch network in Kuwait.

The Bank's Board of Directors, elected in 2010, has in cooperation with one of the professional advisory firms, identified a five-year strategic plan that aims at addressing and overcoming the woes brought by global financial crisis, with particular focus on restoring the Bank back to high profitability levels generated from core banking activities.

To this end, the Board of Directors is closely working with the executive management team to maximize shareholders' returns, cater for customers' banking needs and ensure the Bank's corporate social responsibility as a socially responsible Bank.

Economic Background

GLOBAL ECONOMY

Global economy in 2010 is seen on its revival path after experiencing the deepest global downturn in the recent history. The developing and emerging countries have recovered relatively faster compared to the developed nations.

Extraordinary amount of economic stimulus packages put-through by major Governments and Central Banks across the globe in the past few years was the major driving force for global rebound.

Monetary policy has been highly expansionary and interest rates remained down to record lows in most advanced and many emerging economies.

As for 2011, IMF forecast a global expansion of 4.3 percent, a more muted pace than for this year, as governments around the world may gradually withdraw the stimulus measures they implemented as the global financial crisis escalated in late 2008.

Kuwait Economy

Following last year's financial crisis, Kuwait economy in 2010 showed clear momentum in recovery, on the back of high oil price of around $ 70 to $ 80 per barrel coupled with abundant liquidity in the Banking system. Government's initiatives in starting new projects and Central Bank's monetary policy actions helped economy to perform better than expected.

Though inflation was not a major concern during 2010; yet, it climbed to around 3.4% in June 2010, mainly due to a jump in housing costs. IMF forecasted Kuwait's inflation in 2010 to escalate to 4.8%.

Kuwait's parliament has passed 30 billion dinars four-year development plan which in turn is expected to reduce over dependence on oil revenue which currently accounts for almost 94% of total State income.

The development plan includes many projects such as a new Silk City business hub, Container Harbor, Metro Railway system, etc.

KUWAIT STOCK EXCHANGE

Overall performance of Kuwait Stock Exchange in 2010 was rather poor and at one point KSE index touched six year low of 6,280. It has mirrored the worst recession side effects, which Kuwait has weathered during 2008-09. Stock markets in the developed and emerging economies have recovered almost 80-90% of its 2008 losses whereas KSE remained in the negative territory. However, news flow of KD 30 billion Government's proposed development plan coupled with the better than expected 1st half corporate earnings report lent support to the market to claw back some of its early losses.

Going forward, Government's comprehensive development support plan, possible higher oil prices and expected over-all global economic recovery give hope to see KSE index to climb to higher levels in the year 2011.

Review of Operations

Retail Banking Division

Although the increased restrictions on lending and credit extension imposed by the regulators limited the income flow of the Banking Sector, the Retail Banking Division at the Commercial Bank of Kuwait managed to maintain good revenue schemes for the Bank with their innovative ideas and projects in the year 2010. This also benefited the Retail Banking Division focus on retention and offering excellent service to ensure customer's satisfaction.

The results are an end product to the growth of the Bank by expanding the branch network, imposing set targets with incentives and introducing the cross selling concept. Furthermore, a focus was eyed on increasing expenditure overseas with the new collaboration with Qatar Airways and the continued joint venture with MasterCard International.

By default, the Commercial Bank of Kuwait has continued the conservative lending strategy and coped well with the directives of Central Bank, and introduced new products and services to offer various alternatives in hopes of meeting customers' needs. The continuing growth of the Youth Segment built brand loyalty and the ongoing partnership with AIG introduced income via fees.

In collaboration with the Public Relations Department, the Retail Banking Division participated in numerous events throughout the year through sponsorships and attendance in various social, academic, and professional forums, where the bank managed to present its innovative retail products and services across a large segment of customers and accentuated its Corporate Social Responsibility.

During the course of 2010, with the continued partnership with Visa International, the new Prepaid cards were introduced to meet customer satisfaction and a thrilling 4,000 cards were distributed to customers within the first six weeks of launch. The Prepaid cards offered customers better security and functionality, and to cope with the International Standards. The introduction of the card placed a major load on the branch network but the targets were met and so was customer satisfaction.

Moreover, five branches were renovated to premiere standards offering premium customers the ease and comfort of Banking experience.

Furthermore, the continued partnering with popular local businesses to extend their discounts to the credit cardholders, and special promotions helped increase customer loyalty and expenditure on the cards.

Corporate Credit Division

The Banking Sector, worldwide, continued to face serious challenges in 2010. The Banks in Kuwait, including Commercial Bank of Kuwait, were able to cope better than Banks in Europe and USA because of their healthy capital base. However, the requirement to carry high provisions coupled with significant exposure to the sluggish Real Estate Sector, the stressed Investment Sector and the stock market along with the apprehension of a second round of Global recession along with fears that oil prices may go down, made the Bank to remain vigilant and exercise extreme caution while looking at any significant credit expansion and growth. Nevertheless, we have continued to exploit opportunities in expansion with more prudent approach along with progressively improving the collateral coverage of existing exposures.

One major boost came from the Government announcement of the first (of the proposed six) four-year development plan formulated with the vision of Kuwait becoming the Regional financial & trade centre by 2035. With a budget of over KD 30 billion and an expected expenditure of KD 12-15 billion planned in 2010-11 the plans include the expansion of the power generation capabilities along with water desalination systems, the increase of housing projects, development of a Container Harbor, a Metro Railway system and road transportation besides the modernization and expansion of the Oil production facilities. The involvement of the private sector through BOT (Build, Operate & Transfer) or PPP (Public Private Partnership) will further provide a boost to the Kuwaiti economy. The diversification of the proposed projects would change Kuwait's over-dependence on hydrocarbons. These projects shall provide several lending opportunities to Banks that shall further consolidate and strengthen their financial positions.

Commercial Bank of Kuwait has been in the forefront while participating in all discussions on providing a fillip to the economy through lending and will continue to support all Government initiatives in this regard.

International Banking Division

CBK's relationships with Banks located in the local, regional and international markets allow us to support our customers and shareholders by maintaining a broad base of reciprocal business with our correspondent Banks and taking proprietary positions by investing in a portfolio mostly related to trade that maximizes the Bank's fee income. Additionally, our extensive relationships with foreign Banks enable it to expand the Bank's fee income by choosing CBK's partners for all foreign payments.

In 2010, International Banking Division managed to cut costs and increase fee income by rationalizing its banking relationships. This was in addition to its ongoing support of Kuwait's local construction projects which we assist in taking the associated Bank risk for its proprietary book.

Treasury

Though the impact of global financial crisis has almost faded away, yet in 2010 general economic activity in the country was rather slow which resulted in slowdown in the Treasury activity too. Treasury's prime focus in 2010 was to bring cost of fund to lower levels and thereby to increase net interest margin. Treasury played a distinct role both in the domestic and global market to mobilize deposits at a rather low cost.

Treasury has further focused on building stronger relationships with GCC and international Banks which in turn yielded greater result to achieve large credit lines. Furthermore, Treasury was particular in providing in house cross training to staff and that has helped to strengthen their technical skills on various Treasury products.

Moving further ahead, Treasury is now revitalizing our Derivative desk to cater the sophisticated business community requirements. This desk will develop various structured products in combination of FX forward, IRS, FRA, Options etc. as a hedging tool to meet customers' underlined business risk.

Investment

CBK Capital

CBK Capital, the fully owned subsidiary of the Bank, commenced full scale operations during the second half of 2010. It is now fully staffed and the team comprises of dynamic, talented and highly skilled professionals with proven knowledge in their areas of expertise. CBK Capital provides a range of services in the following four broad areas:

- Asset Management: Funds management, Portfolio management and Private equity
- Advisory: Debt restructuring, Feasibility studies, Valuations and Capital structuring
- Investment Banking: Lead management of debt issues and Merger & acquisitions
- Financing Activities: Financing capital increase and arranging bridge financing for local companies / corporate entities

During the year, Asset management activities continued profitably earning fee income. CBK Capital is the Manager of four Tijari equity Funds two of which are Sharia compliant. These Funds cover a range of geographies and markets. CBK Capital also manages the diversified proprietary investment portfolio of the Bank. For the year, income was generated from sale of investments, dividend and interest income. Related portfolio management activities are carried out as per the investment guidelines of the Central Bank of Kuwait.

Risk Management Division

The Risk Management Division is instrumental in effectively identifying, assessing, measuring, managing and reporting of enterprise wide risks. The Division uses several quantitative tools for measuring risks under the three major heads listed under Pillar I of Basel II viz., credit risk, operational risk, and market risk, as well as under other heads listed, in Pillar II of Basel II which include credit concentration risk, market concentration risk, liquidity risk, interest rate risk, reputational risk, strategic risk and legal risk.

During the year, the Division continued with its initiatives in the areas of measuring and managing different classes of risk, thereby enhancing its ICAAP framework and complementing the same with a unique and integrated stress testing framework incorporating all systematic and specific risk factors.

The Bank's credit portfolio was subjected to reviews by the Risk Management Division through an internally developed risk grading model and periodical analysis of the transition of obligors across different grades. The Division is in the preliminary process of working out initiatives for moving towards a more advanced credit risk measurement model using internal ratings of obligors. The Division continued to quantify the Bank's exposure to market risk in terms of Value at Risk (VaR) measure which was subjected to periodic backtesting as per BIS requirements. The Bank also continues to measure its exposure to interest rate risk in the Banking book by way of the earnings at risk (EaR) measure. During the year a new liquidity risk metrics has been introduced which incorporates all relevant factors for detecting early signs of a potential liquidity crisis in the system which would enable the Bank to proactively initiate measure to minimize the adverse impact of any such crisis.

The Division continued to work closely with all business units during the year to raise awareness of operational risks and perform Control Self Assessments (CSA) of the processes and activities of different areas in order to identify and assess embedded risks in their systems and procedures. The continuation of a bankwide insurance policy enables effective transfer of operational risks to credit worthy institutions.

The Division continues to empower itself by further strengthening the risk measurement and management tools to be in line with international best practices.

Information Technology

The Information Technology Department met several demanding challenges during 2010 thanks to the efforts of the staff in the Department. This Department continues to enhance the existing functionalities and deliver new products in line with the business direction using technology advancements. Additional functionalities on the internet Banking were developed such as extending the internet services to cater for various functions related to the labors sector and streamlined salary processing. Others were the SMS authentication for corporate customers' transfers via Internet Banking, and SMS notification for corporate customers' Internet registration. All Customer statements are now distributed via E-mail and Fax which means faster Customer delivery, reduced costs and contributes to Bank's "green" image.

New Core Banking System

Major implementation of the Integrated Computerized Banking System was achieved bankwide. The new core Banking system now services all branches network. Further enhancements were carried out throughout the year to strengthen the new system infrastructure and provide stable and prompt services which involved deploying powerful CPU's along with re-organization and consolidation of the various hardware.

ATMs and Cards

During the year, Information Technology continued upgrading of the Banks ATM's and its Card Management systems to ensure that the Bank Debit and Credit cards are compliant with all Local and International mandates. A pilot Branch Issuance (Instant Issuance) for Debit cards has started with the objective of gradual Bank-wide implementation.

Simplified Branch Telephone Numbers

The Branch telephone numbers have been simplified to facilitate easier contact for Customer Service as well as internal Bank communication. This is being implemented by employing IP phones that use Voice over IP technology with the intention of widely replacing the ordinary public switched telephone network.

Operations Division

The Operations Division being considered the back bone of the Bank, continues the smooth running of Bank business in its quest to keep up with competition and technology fast pace.

The year 2010 saw the final implementation stage of the Bank new core system, along with the restructuring of units under operation in an effort to increase efficiency, whilst at the same time strengthening internal controls within its units, thus ensuring security and mitigating operational risk.

Driven by the force of success, its Trade Services department continued providing customers with professional advice on technical matters, providing enhanced service to customers by providing more online facilities thus cutting on the use of paper, and staying ahead of competition by being creative and innovative.

The Credit Administration Department continued applying new technologies, improving the quality of control and reporting requirements, to complement the lending Division's fully automated system.

The Treasury Operations Department continued its support role to other business areas of the Bank whilst managing currency volatility and acquiring market knowledge offering professional advice to its customers in a constantly changing world full of competition.

Overall, this year was successful for Operations. We look forward to make the next year better.

Human Resources Department

Our human capital is our most important asset and HRD recognizes this. We are committed to remaining as one of the leading employers in the banking industry. Our strength is 1200 plus and our Recruitment Section continues to develop new approaches to recruitment methodology that ensures attracting the best talent. A web site was developed where outside candidates are able to submit CVs online, hoping to make this as the main recruitment channel.

CBK continues to invest in training. Our training and career development programs are designed to ensure that our staff enhance their skills on an on-going basis. The Training Unit provides continuous learning opportunities and conducts integrated training for our new employees.

HRD also participates in the various Career Fairs with new and existing Colleges in order to show our interest in the Kuwaiti youth and that development and retention of their talent is our main focus and objective.

Our number one mission is to recruit qualified and talented Kuwaitis thus meeting the Bank's goal to increase our Kuwaiti percentage as well as support the Kuwaitization process. Each year many fresh Kuwaiti graduates are recruited by attracting them from various academic institutions through the career fairs and providing them with intensive training and attractive career choices. Through such practices, last year we were able to increase our Kuwaiti percentage to over 60% which stood at 60.06% as of end 2010.

Internal Audit

As we are emerging from the economic crisis of the past two years, Internal Audit focused on providing an independent assessment of the Bank internal control systems through testing of key processes and controls across the Bank. Internal Audit activities were designed to provide reasonable assurance that resources are adequately protected; significant financial, managerial and operating information are materially complete, accurate and reliable; and corporate governance and management of risks best practices were implemented.

Anti-Money Laundering Unit

Money laundering continues to be a global concern and the Anti-money Laundering Unit, which reports directly to the Chairman, continues to monitor, investigate and report any suspicious transactions. The automated AML system extends coverage to all SWIFT messages in addition to domestic transactions and make use of Central Bank of Kuwait, United Nations, US Treasury OFAC and internal blacklists to identify any suspicious and unusual transactions. The Anti-money Laundering Unit continues to comply with all regulatory requirements and ensure the implementation of best practices.

Legal Department

The Legal Department at the Commercial Bank of Kuwait plays a major role targeting a set of legal principles & objectives within the Board of Directors' general strategy that aims at enhancing cooperation between the Legal Department and all the Bank's departments in pursuit of the aspired objectives.. Undoubtedly, the Legal Department perpetually endeavors to upgrade its performance in relation to legal advices rendered to all the Bank's business and support areas in addition to drafting and preparing all types of contracts & agreements as required by the business functions at the Bank and coping with any legal problems that may impede the work flow. Additionally, the Legal Department represents the Bank before all courts and public prosecution to safeguard the Bank, its shareholders and employees rights and to strengthen its position among banks domestically and internationally.

Advertising and Public Relations

Al-Tijari... A Journey of 50 Years

Advertising & Public Relations Department assumed a significant role in commemorating the 50th anniversary of the Commercial Bank of Kuwait and celebrating the Bank's golden jubilee through the audio-visual & printed media which highlighted the Bank's achievements throughout this period. The media coverage particularly focused on the important advances and strides throughout the Bank history as the second oldest Bank in Kuwait and one of the premier provider of innovative & sophisticated services to customers.

Commercial Bank of Kuwait was appreciative of the distinct media coverage made through the local media where local newspapers demonstrated the significant phases in the history of the Bank and the remarkable development of the Bank over the past 50 years.

Commercial Bank of Kuwait... Social Responsibility

Within its proactive endeavors to support & sponsor the humanitarian activities for all the segments of the community, Commercial Bank of Kuwait supported the 5th Gulf Week for the Disabled organized by the Kuwaiti Society for the Guardians of the Disabled and shared the Kuwait Association for the Blind their Exhibition "Hand in Hand" for boosting the morale of this category. The Bank also sponsored the Exhibition "My Ambition Overcomes My Disability" organized by the College of Law at Kuwait University. Undoubtedly the Bank social contributions and outreaches come to further demonstrate its corporate social responsibility. As a socially responsible Bank, Commercial Bank celebrates Gergiaan with the children hospitalized in Hospitals where the Bank this year organized its Gergiaan party for the children hospitalized in Hussein Makki Jumma'a Center and also visited Ibn Sina Hospital to distribute Gergiaan to the children hospitalized in the Hospital. During the year, the Bank was actively present in a number of the humanitarian events where the Bank provided support to Al-Ataa Kindergarten by providing rooms with special supplies and necessities for the disabled children and also shared the joy of Eid Al-Fitr with the elderly of the caring homes. The Bank has further offered donation to the families of the female prisoners jailed in the Central Prison, where the donation was in form of purchase coupons from the Police Cooperative Society. The Bank also celebrated the independence & Liberation day with the aged of the elderly homes.

Commercial Bank... Distinct Presence in Important Conferences & Seminars
Commercial Bank of Kuwait reinforced its presence in a number of important conferences and seminars. The Bank sponsored the 2nd Kuwait Financial Forum organized by Al-Iktissad Wal-Aamal Group in collaboration with the Central Bank of Kuwait and Kuwait Banking Association. The Bank also participated in the 7th Information Forum in addition to the exhibitions that support young Kuwaitis. Within the Bank ongoing endeavors to strengthen the social relationships among staff members, CBK annually arranges Al-Tijari Hobbyists Exhibition where all the Bank staff and their families meet. The Exhibition encompasses an assortment of designs and handcrafts produced by the Bank staff members, thus it is one of the favorable exhibitions for the Bank employees to exhibit their innovative handworks.

Al-Tijari... Reviving the Kuwaiti Heritage
Commercial Bank perpetually endeavors to revive the old Kuwaiti heritage as the Bank realized since long that the old Kuwaiti heritage is rich with glorious achievements & noble lessons. Drawing from this and within the Bank keenness to link the past with the present & the future, the Advertising and Public Relations Department has issued 2011 calendar which included paintings that depicted scenes of the old Kuwaiti heritage and presented some tools used by the ancestors and grandfathers in their everyday life so that such heritage remains remembered in the minds of present and future generations.

Corporate Governance

Framework for Governance
The Commercial Bank is committed to effective Corporate Governance balancing innovation, commitment and corporate citizenship with control and transparency in all its dealings.

The Board of Commercial Bank of Kuwait has resolved that good faith, integrity, compliance quality and respect must guide the conduct of Directors, managing staff at all times when engaged in the Bank 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 requiring them to enter into a confidentially undertaking.

The Corporate Governance framework for the Bank includes extensive operational policies and 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 were aware of the following Shareholders with holdings in excess of 5% of the issued ordinary Share Capital as at 31st December 2010:

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 CEO and those who report to him.
- Set objectives and policy frameworks including those related to Credit and investment.
- Formulation of overall Banking and operating strategy.
- Review and approve action plans and implementation.
- Review and approve the annual budget.
- Review and approve internal control policies and supervision thereof.
- Perform quarterly reviews of the implementation of the action plan amending where necessary.
- Review actual financial performance against budget.
- Review and approve marketing, organizational and administrative matters.
- Review and approve capital and project expenditure above the Chairman's authority.
- Review and approve the investment policy recommending to the Board of Directors any required amendments.
- Approve certain investments in line with the Investment policy.
- Review the Executive Management Team quarterly performance report of the investment portfolio.
- Approve the asset class allocation of the Investment portfolio.
- Ensure compliance with Central Bank of Kuwait's investment instructions and regulations.
- Delegate the Executive Management Team to execute the disposal and acquisition transactions, participation in capital increase and approve the asset class allocation of the investment portfolio.
- Submit semi-annual performance reports of the investment portfolio to the Board of Directors.

The Board Credit Committee (BCC)

- Review and approve the Credit policy and proposed amendments by the Credit Committee of Risk Management in accordance with Central Bank of Kuwait instructions.
- Review and approve Country credit limits for credit, investment and treasury.
- Review and approve foreign exchange limits within the Central Bank of Kuwait limits.
- Review and approve Bank counterparty limits.
- Review and approve new and renewed credit facilities based on the Credit Committee recommendations and within Central Bank of Kuwait limits.

- Review and approve the return of funds, the reversal of interest and fees, off balance sheet transactions, write off of debts and the extension of credit limits as set out in the Credit policy and within Central Bank of Kuwait instructions.
- Review and approve credit facilities offered to members of the Board of Directors ensuring compliance with Central Bank of Kuwait 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 of the Board.
- Oversee and support the internal audit function, giving it a greater degree of independence from management and authority.
- Provide a framework for the external auditors to assert their independence, whilst providing a communications channel through which to express issues of concern.
- Select the Chief Internal Auditor and recommend remuneration to be approved by the chairman.
- Appoint External Auditors and designate budget and special audit assignment fees.
- Review any resignations by or terminations of the External Auditors or Chief Internal Auditor.
- Review with the External Auditors the nature and scope of their audit and ensure proper coordination of more than one external office is involved.

Board of Directors

In April 2010, the Shareholders elected Board members for a term of three-years.

- Bader Sulaiman Al Ahmed - Chairman
- Ali Yousef Al Awadhi - Deputy Chairman
- Ahmad Mohammed Al Mishari
- Tareq Farid Al Othman
- Anoud Fadil Al Hathran

Financial Review

2010 Statement of Income

The profit attributable to shareholders of the Parent Bank for the year is KD 40.5 million.

Net interest income of KD 87.8 million was KD 16.2 million or 16% lower than 2009. The average yield on interest earning assets declined to 4.15% from 4.78% in 2009, with the average Central Bank of Kuwait discount rate falling during the two years from 3.25% to 2.55%. The average cost on interest bearing liabilities fell to 1.61%, down from the 2.06% of 2009. The Bank's net spread was 2.54% and the net interest margin was 2.65%.

Fees and commissions decreased by KD 2.5 million or 8%. Dividend income of KD 2.0 million was down on 2009 following the sale of investments.

Staff expenses decreased KD 0.3 million or 2% on 2009. General and administration expenses for 2010 were in line with 2009 after allowing for an exceptional credit of KD 5.7 million last year.

The charge for Impairment and other provisions for credit facilities and investments was KD 51.2 million for 2010, a significant reduction compared to the KD 130.8 million of 2009.

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. Total provision cover for 2010, including general provisions, was 59% of non-performing loans. Non-performing loans decreased KD 64.5 million to KD 397.6 million. Post liberation non-performing loans were KD 34.4 million higher while pre invasion non-performing loans were written off with the approval of Central Bank of Kuwait.

2010 Balance Sheet

Total assets increased by KD 27.3 million or 1% on 2009; with an increase in Treasury and Central Bank bonds 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 19.96% and comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

Dividends and Proposed Appropriations

The net profit attributable to shareholders of the Parent Bank for the year of KD 40.5 million will be distributed as follows:

1. KD 19.1 million to the dividend account for the distribution of a 15 fils cash dividend (2009: nil 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.

Introduction

We have audited the accompanying consolidated financial statements of Commercial Bank of Kuwait S.S.K. ('the Parent Bank') and subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2010 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

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 adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

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 2010 and 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 Parent Bank and the consolidated financial statements, together with the contents of the report of the Parent Bank' s 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 the 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 Parent 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 1960, as amended, or of the Parent Bank's Articles of Association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our 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 organization of banking business, and its related regulations, during the year ended 31 December 2010.

Jassim A. Al-Fahad
License No. 53A
Deloitte & Touche
Al-Fahad, Al-Wazzan & Co.

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

Kuwait
27 January 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2010

ASSETS	Note	2010 KD 000's	2009 KD 000's
Cash and short term funds	3	**208,353**	252,658
Treasury and Central Bank bonds	4	**500,584**	361,345
Due from banks and other financial institutions	5	**222,682**	275,573
Loans and advances	6	**2,348,354**	2,406,910
Investment securities	7	**278,409**	222,144
Investment in an associate	8	**8,924**	3,721
Premises and equipment		**24,652**	26,153
Goodwill and other intangible assets	9	**18,372**	18,517
Other assets	10	**12,273**	28,276
TOTAL ASSETS		**3,622,603**	3,595,297
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	11	**806,332**	1,044,014
Customer deposits	12	**2,272,578**	2,041,909
Other liabilities	13	**57,643**	68,619
TOTAL LIABILITIES		**3,136,553**	3,154,542
EQUITY			
Equity attributable to shareholders of the Parent Bank			
Share capital		**127,202**	127,202
Treasury shares		**(75)**	(75)
Reserves		**225,479**	220,852
Retained earnings		**113,333**	91,960
		465,939	439,939
Proposed dividend		**19,079**	-
		485,018	439,939
Non-controlling interests		**1,032**	816
TOTAL EQUITY	14	**486,050**	440,755
TOTAL LIABILITIES AND EQUITY		**3,622,603**	3,595,297

These consolidated financial statements have been approved for issue by the Board of Directors on 27 January 2011 and signed on their behalf by:

Bader Sulaiman Al-Ahmed
Chairman

Elham Yousry Mahfouz
Acting CEO

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2010

	Note	2010 KD 000's	2009 KD 000's
Interest income	15	**137,506**	173,699
Interest expense	16	**(49,654)**	(69,647)
NET INTEREST INCOME		**87,852**	104,052
Fees and commissions		**27,468**	30,004
Fund management fees		**1,043**	1,255
Net gain from dealing in foreign currencies		**4,590**	2,483
Net (loss) gain from investment securities	17	**(126)**	18,603
Dividend income		**1,975**	2,422
Share of result from an associate	8	**217**	(2,345)
Other operating income	18	**824**	832
OPERATING INCOME		**123,843**	157,306
Staff expenses		**(17,822)**	(18,157)
General and administration expenses		**(11,187)**	(5,505)
Depreciation and amortisation		**(1,225)**	(2,672)
OPERATING EXPENSES		**(30,234)**	(26,334)
OPERATING PROFIT BEFORE PROVISIONS		**93,609**	130,972
Impairment and other provisions	19	**(51,174)**	(130,814)
PROFIT BEFORE TAXATION		**42,435**	158
Taxation	20	**(1,900)**	(6)
NET PROFIT FOR THE YEAR		**40,535**	152
Attributable to:			
Shareholders of the Parent Bank		**40,452**	146
Non-controlling interests		**83**	6
		40,535	152
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	21	**31.8**	0.1

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2010

	2010 KD 000's	2009 KD 000's
Net profit for the year	**40,535**	152
OTHER COMPREHENSIVE INCOME		
Changes in fair value of investment securities	**4,613**	7,491
Net gain (loss) on disposal / impairment of investment securities	**937**	(9,484)
Property revaluation loss	**(754)**	(3,778)
Share of other comprehensive income of an associate	**(36)**	-
	4,760	(5,771)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**45,295**	(5,619)
Attributable to:		
Shareholders of the Parent Bank	**45,079**	(5,807)
Non-controlling interests	**216**	188
	45,295	(5,619)

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2010

	KD 000's													
	Attributable to shareholders of the Parent Bank													
			Reserves											
	Share Capital	**Treasury Shares**	**Share Premium**	**Statutory Reserve**	**General Reserve**	**Treasury Shares Reserve**	**Property Revaluation Reserve**	**Investment Valuation Reserve**	**Total Reserve**	**Retained Earnings**	**Proposed Dividend**	**Total**	**Non-controlling Interests**	**Total**
Balance as at 1 January 2009	127,202	-	66,791	63,601	17,927	45,603	25,336	7,547	226,805	91,814	50,881	496,702	691	497,393
Total comprehensive income for the year	-	-	-	-	-	-	(3,778)	(2,175)	(5,953)	146	-	(5,807)	188	(5,619)
Purchase of treasury shares	-	(75)	-	-	-	-	-	-	-	-	-	(75)	-	(75)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(50,881)	(50,881)	(63)	(50,944)
Balance as at 31 December 2009	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**21,558**	**5,372**	**220,852**	**91,960**	**-**	**439,939**	**816**	**440,755**
Total comprehensive income for the year	-	-	-	-	-	-	(754)	5,381	4,627	40,452	-	45,079	216	45,295
Proposed dividend (note 14)	-	-	-	-	-	-	-	-	-	(19,079)	19,079	-	-	-
Balance as at 31 December 2010	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**20,804**	**10,753**	**225,479**	**113,333**	**19,079**	**485,018**	**1,032**	**486,050**

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2010

	Note	2010 KD 000's	2009 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**42,435**	158
Adjustments for:			
Impairment and other provisions	19	**51,174**	130,814
Income from investment securities		**(1,849)**	(21,025)
Foreign exchange gain on investment securities		**(342)**	(375)
Depreciation and amortisation		**1,225**	2,672
Other adjustments		**(54)**	76
Share of results from an associate	8	**(217)**	2,345
Profit before changes in operatiing assets and liabilities		**92,372**	114,665
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**(139,239)**	(109,534)
Due from Banks and other financial institutions		**53,935**	663,588
Loans and advances		**15,261**	(77,558)
Other assets		**16,001**	63,199
Due to Banks and other financial institutions		**(237,682)**	1,321
Customer deposits		**230,669**	(602,931)
Other liabilities		**(12,368)**	(52,309)
Net cash from operating activities		**18,949**	441
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**46,930**	77,624
Acquisition of investment securities		**(106,858)**	(94,925)
Investment in an associate		**(5,022)**	-
Dividend income from investment securities		**1,975**	2,422
Proceeds from disposal of premises and equipment		**886**	31
Acquisition of premises and equipment		**(1,165)**	(1,688)
Net cash used in investing activities		**(63,254)**	(16,536)
FINANCING ACTIVITIES			
Purchase of treasury shares		**-**	(75)
Dividend paid		**-**	(50,881)
Net cash used in financing activities		**-**	(50,956)
Net decrease in cash and short term funds		**(44,305)**	(67,051)
Cash and short term funds as at 1 January		**252,658**	319,709
Cash and short term funds as at 31 December	3	**208,353**	252,658

The attached notes 1 to 30 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait S.A.K (the "Parent Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a bank with the Central Bank of Kuwait (CBK) and listed on the Kuwait Stock Exchange (KSE). The address of the registered office of the Parent Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

The Parent Bank and its subsidiaries are together referred to as "the Group" in these consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the CBK's requirement of a minimum general provision as disclosed in accounting policy of "impairment of financial assets".

The consolidated financial statements are prepared under the historical cost basis of measurement as modified by the revaluation of freehold land, derivative financial instruments and financial assets classified as "at fair value through statement of income" and "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 used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new and amended IASB Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued during the year:

i) IFRS 3: Business Combinations - (Amended)
ii) IAS 27: Consolidated and Separate Financial Statements - (Amended)
iii) IAS 38: Intangible Assets - (Amended)
iv) IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items - (Amended)
v) IFRS 2: Share-based Payment: Group cash-settlement share-based payment transactions - (Amended)
vi) IFRIC Interpretation 9: Reassessment of embedded derivatives
vii) IFRIC Interpretation 16: Hedges of a net investment in a foreign operation
viii) IFRIC Interpretation 17: Distributions of non-cash assets to owners
ix) IFRIC Interpretation 18: Transfers of assets from customers

The major changes in the new and amended standards are as follows:

i) IFRS 3: Business Combinations - (Amended): The amendment introduces significant changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

ii) IAS 27: Consolidated and Separate Financial Statements - (Amended): The amendment requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes in IAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interest.

iii) IAS 38: Intangible Assets - (Amended): The amendment is part of the IASB's annual improvements project published in April 2009 and the Group adopted IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment did not result in a material impact on the Group.

iv) IAS 39: Financial Instruments: Recognition and Measurement - Eligible hedged items - (Amended): The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

The application of other IASB Standards and IFRIC Interpretations did not have material impact on the consolidated financial statements of the Group.

The following IASB Standards and IFRIC Interpretations have been issued / amended but not yet mandatory, and have not been adopted by the Group:

i) IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2013)
ii) IAS 24: Related Party Disclosures (Revised) (effective 1 January 2011)
iii) IAS 32: Financial Instruments: Presentation -Classification of Rights Issues (Amended) (effective 1 February 2010)
iv) IFRIC Interpretation 14: Prepayments of a minimum funding requirement (Amended) (effective 1 January 2011)
v) IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010)

The major changes in the new and amended standards are as follows:

i) IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2013): The Standard will ultimately replace IAS 39 in its entirety on its effective date. The application of IFRS 9 will result in amendments to the classification and measurement of financial assets and liabilities of the consolidated financial statements of the Group.

ii) IAS 24: Related Party Disclosures (Revised) (effective 1 January 2011): The amended Standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

Adoption of other IASB Standards and IFRIC Interpretations will not have material effect on the consolidated financial position or the consolidated financial performance of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards and Interpretations become effective.

(b) Basis of consolidation

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

i) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group 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 these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such 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 represents the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Bank. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. Losses within a subsidiary are attributed to the non controlling interests even if that results in a deficit balance.

ii) Associates

Associates are 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. Goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment annually.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

(c) Business Combinations

A business combination is the bringing together of separate entities or businesses into one. The acquisition of subsidiaries is accounted for using the acquisition 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 acquiree. Acquisition related costs are recognised in the consolidated statement of income as incurred. 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 lower of carrying amount or fair value less costs to sell.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of income.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

i) Derecognises the assets (including goodwill) and liabilities of the subsidiary
ii) Derecognises the carrying amount of any non controlling interest
iii) Derecognises the cumulative translation differences, recorded in equity
iv) Recognises the fair value of the consideration received
v) Recognises the fair value of any investment retained
vi) Recognises any surplus or deficit in profit or loss
vii) Reclassifies the Parent Bank share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(d) Cash and short term funds

Cash and short term funds comprise cash in hand and current accounts with banks, balances with the CBK 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, 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, 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 investment valuation reserve in the consolidated statement of comprehensive income. When the "available for sale" financial asset is disposed of or impaired, any prior fair value adjustments earlier reported in the consolidated statement of 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 is derecognised

1) when the contractual rights to the cash flows from the financial asset expire or;
2) when the Group has transferred substantially all the risks and rewards of ownership or;
3) 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.

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between trade date and settlement date are recognized 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 and transferred to the consolidated statement of income when the hedge transaction affects the consolidated statement of income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity. When the forecast transaction is no longer expected to occur, the cumulative gain or loss is transferred to 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 statement of financial position at fair value, being the fee and commission received. 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 net 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 CBK's 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 active 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 or net asset value.

The fair value of interest bearing financial instruments which are not traded in an active market is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics and dealer price quotations. 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.

The fair value of unquoted equity instruments is determined by reference to the market value of a similar investment, on the estimated discounted cash flows, other appropriate valuation models or dealer price quotations. 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.

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. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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.

In addition, in accordance with the CBK'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.

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

ii) Financial 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. 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. Impairment losses recognised on available for sale equity investments are not reversed through 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 the consolidated statement of 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. However 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 the consolidated statement of income.

(g) Goodwill and other intangible assets

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of:

i) the aggregate of the consideration transferred, the fair value of any non-controlling interests in the acquiree measured at the non controlling interest's proportionate share of the acquiree's identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over

ii) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

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 for impairment whenever there is an indication that the asset may be impaired. 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 Bank's 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 CBK. 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 rate. 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 the consolidated statement of financial position are translated into Kuwaiti Dinar at rates of exchange prevailing at the date of consolidated 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 as at fair value through statement of income are reported as part of the fair value gain or loss in the consolidated statement of income whereas the translation difference on non-monetary items classified as available for sale financial assets are included in investment valuation reserve in the consolidated statement of 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 consolidated statement of financial position. The Group considers this to be a reliable approximation of the present value of this obligation.

(l) Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

(m) Fiduciary assets

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

(n) 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 consolidated statement of financial position, 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 other intangible assets

The Group determines whether goodwill and intangible assets are 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

	2010 KD 000's	2009 KD 000's
Cash and cash items	**38,185**	45,912
Balances with the CBK	**8,398**	45,127
Deposits with banks maturing within seven days	**161,770**	161,619
	208,353	252,658

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

4- TREASURY AND CENTRAL BANK BONDS

	2010 KD 000's	2009 KD 000's
Treasury bonds	**262,911**	215,345
Central Bank bonds	**237,673**	146,000
	500,584	361,345

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".

	2010 KD 000's	2009 KD 000's
Placements with banks		
Loans and advances to banks	**182,167**	242,973
Amounts due from other financial institutions	**30,803**	44,925
	25,133	8,225
Less : Provision for impairment	**238,103**	296,123
	(15,421)	(20,550)
	222,682	275,573

(b) Non-performing loans

At 31 December 2010 non-performing loans and advances to banks amounted to KD 29,464 thousand (2009: KD 37,413 thousand), split between facilities granted pre-invasion and post liberation as follows :

	2010 KD 000's			2009 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	**4,194**	**-**	**4,194**	4,286	-	4,286
Granted after the liberation of Kuwait in 1991	**25,270**	**14,043**	**11,227**	33,127	14,353	16,264
	29,464	**14,043**	**15,421**	37,413	14,353	20,550

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 2010	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	**341,025**	**23,059**	**-**	**-**	**-**	**364,084**
Construction and real estate	**691,600**	**14,707**	**4**	**1**	**-**	**706,312**
Other financial institutions	**308,617**	**-**	**6**	**-**	**-**	**308,623**
Retail customers	**403,912**	**-**	**-**	**-**	**-**	**403,912**
Others	**778,124**	**20,506**	**9**	**30**	**90**	**798,759**
	2,523,278	**58,272**	**19**	**31**	**90**	**2,581,690**
Less: Provision for impairment						**(233,336)**
						2,348,354

As at 31 December 2009	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
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

(b) Movement in provisions for loans and advances

	2010 KD 000's			2009 KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	**210,486**	**75,036**	**285,522**	109,859	87,120	196,979
Write-offs	**(103,278)**	**-**	**(103,278)**	(25)	-	(25)
Exchange differences	**2,703**	**-**	**2,703**	5,467	-	5,467
Recoveries	**1,972**	**-**	**1,972**	2,098	-	2,098
Ceded to Central Bank	**(40)**	**-**	**(40)**	(30)	-	(30)
Charged/(released) to statement of income	**44,793**	**(1,498)**	**43,295**	93,117	(12,084)	81,033
Provisions 31 December	**156,636**	**73,538**	**230,174**	210,486	75,036	285,522

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

The specific and general provision for cash credit facilities amounting to KD 230,174 thousand (2009: KD 285,522 thousand) also includes an additional provision amounting to KD 41,510 thousand (2009: KD 42,600 thousand) which is over and above the CBK's minimum general provision requirements. The Group has also suspended interest amounting to KD 3,162 thousand (2009: KD 11,693 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 17,572 thousand (2009: KD 17,521 thousand) is included in other liabilities.

(c) Non-performing loans

At 31 December 2010 non-performing loans and advances amounted to KD 397,643 thousand (2009: KD 462,104 thousand), split between facilities granted pre-invasion and post liberation as follows :

	2010 KD 000's			2009 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
Granted after the liberation of Kuwait in 1991	**397,643**	**159,709**	**159,798**	363,264	81,452	123,338
	397,643	**159,709**	**159,798**	462,104	81,452	222,178

The available provision 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

	2010 KD 000's	2009 KD 000's
At fair value through statement of income		
Equity securities -quoted	**588**	6,292
Loans and receivables		
Debt securities -unquoted	**1,407**	2,156
Available for sale		
Debt securities -quoted	**20,275**	1,252
Debt securities -unquoted	**22,407**	8,536
Equity securities -quoted	**180,852**	126,566
Equity securities -unquoted	**35,136**	38,964
Others	**17,744**	38,378
	278,409	222,144

During the year, the Group recognised an unrealised gain of KD 4,613 thousand (2009: KD 7,491 thousand) in the consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 937 thousand (2009: unrealised gain of KD 5,411 thousand) to the consolidated statement of income on disposal of "available for sale" investment securities. Impairment loss of KD 9,402 thousand (2009: KD 30,517 thousand) was also charged to the consolidated statement of income.

Fair value of securities of KD 214,591 thousand (2009: KD 167,760 thousand) are based on observable market information. Fair values unquoted securities amounting to KD 41,834 thousand (2009: KD 42,622 thousand) are based on valuation techniques. The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial, if the relevant risk variables used to determine fair values for the unquoted securities were altered by 5%.

It was not possible to reliably measure the fair value of unquoted securities amounting to KD 21,984 thousand (2009: KD 11,762 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.

Investment securities include 348,483,589 shares carried at a cost of KD 126,504 thousand (31 December 2009: KD 94,103 thousand) out of which the Parent Bank acquired 221,421,095 shares at a cost of KD 94,103 thousand in the year 2009 under a transaction executed through the KSE where the counterparty subsequently failed to exercise their buy back option within the agreed time frame. During 2010, the Parent Bank participated in the rights issue and acquired 127,062,494 shares at a cost of KD 32,401 thousand. As at the reporting date, the Parent Bank holds the title of the underlying shares. The counterparty raised a legal case challenging the Parent Bank's ownership that is currently pending at the court of law. Management believes that they have a meritorious defense.

8- INVESTMENT IN AN ASSOCIATE

The Group owns a 32.26% (2009: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in the Republic of Syria engaged in Islamic banking activities.

Summarised financial information of an associate is as follows:	2010	2009
	KD 000's	KD 000's
Share of associates' statement of financial position:		
Total assets	**33,707**	22,608
Total liabilities	**24,783**	18,887
Net assets	**8,924**	3,721
Share of associates' net revenues and results:		
Net operating income	**922**	(105)
Results for the year	**217**	(2,345)

9- GOODWILL AND OTHER INTANGIBLE ASSETS

	2010 KD 000's	2009 KD 000's
Goodwill	**1,765**	1,765
Other intangible assets	**16,607**	16,752
	18,372	18,517

Other intangible assets represent the value of a brokerage license KD 16,185 thousand (2009: KD 16,185 thousand); patents KD 29 thousand (2009: KD 43 thousand) and customer relationship KD 393 thousand (2009: KD 524 thousand). The brokerage license is considered to have an indefinite useful life. As at 31 December 2010, 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

	2010 KD 000's	2009 KD 000's
Accrued interest receivable	**376**	1,369
Other receivables	**11,897**	26,907
	12,273	28,276

Other assets are classified as "loans and receivables".

11- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 KD 000's	2009 KD 000's
Due to Banks		
Current accounts and demand deposits	**9,748**	8,923
Time deposits	**196,315**	197,261
	206,063	206,184
Deposits from other financial institutions		
Current accounts and demand deposits	**53,187**	44,917
Time deposits	**547,082**	792,913
	600,269	837,830
	806,332	1,044,014

12- CUSTOMER DEPOSITS	2010	2009
	KD 000's	KD 000's
Current accounts and demand deposits	**310,374**	271,281
Saving accounts	**287,952**	271,761
Call deposits	**23,485**	23,337
Time deposits	**1,650,767**	1,475,530
	2,272,578	2,041,909

13- OTHER LIABILITIES	2010	2009
	KD 000's	KD 000's
Accrued interest payable	**13,365**	14,027
Deferred income	**1,223**	2,401
Provision for non-cash facilities & others	**20,911**	21,652
Staff related accruals	**1,369**	383
Others	**20,775**	30,156
	57,643	68,619

14- Equity

(a) Share capital

The share capital comprises of 1,272,022,346 (2009: 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	2010	2009
Number of treasury shares	**70,000**	70,000
Percentage of treasury shares	**0.01**	0.01
Cost of shares (KD 000's)	**75**	75
Fair value of shares (KD 000's)	**64**	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 (2009: KD nil) 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 year 2010 and 2009 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 surplus arising from the revaluation of property. The balance in this reserve is taken directly to retained earnings upon disposal of property.

(g) Investment valuation reserve

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

(h) Proposed dividend and bonus shares

The Board of Directors has proposed a cash dividend 15 fils per share for the year ended 31 December 2010. This proposal is subject to shareholders' approval.

Annual general assembly of the shareholders' held on 7 April 2010 approved not to distribute cash dividend for the year 2009.

15- INTEREST INCOME

	2010 KD 000's	2009 KD 000's
Loans and advances to banks and customers	**126,978**	155,880
Interbank transactions and placements	**3,719**	11,000
Bonds and other investments	**6,809**	6,819
	137,506	173,699

Interest income includes a release of KD 1,956 thousand (2009: KD 3,476 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 circulars 2/202BS RSA/2007 dated February 13, 2007 and 2/105 dated April 23, 2008.

16- INTEREST EXPENSE

	2010 KD 000's	2009 KD 000's
Customer deposits	**(47,904)**	(44,454)
Interbank transactions and deposits	**(1,750)**	(25,193)
	(49,654)	(69,647)

17- NET (LOSS) GAIN FROM INVESTMENT SECURITIES

	2010 KD 000's	2009 KD 000's
Unrealised gain on investments at fair value through statement of income	**6,157**	488
Realised loss on sale of investment at fair value through statment of income	**(6,589)**	(1,474)
Realised gain on sale of available for sale investments	**306**	19,589
	(126)	18,603

18- OTHER OPERATING INCOME

	2010 KD 000's	2009 KD 000's
Communication recoveries	**753**	706
Rental income	**47**	60
Others	**24**	66
	824	832

19- IMPAIRMENT AND OTHER PROVISIONS

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

	2010	2009
	KD 000's	KD 000's
Loans and advances - specific	**(43,749)**	(113,112)
Loans and advances - general	**1,498**	12,084
Investment securities	**(9,402)**	(30,517)
Non cash facilities	**(49)**	379
Other provisions	**528**	352
	(51,174)	(130,814)

20- TAXATION

	2010	2009
	KD 000's	KD 000's
National Labour Support Tax (NLST)	**(1,060)**	-
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(424)**	(3)
Zakat	**(416)**	(3)
	(1,900)	(6)

The Group calculates the NLST in accordance with Law No.19 of 2000 and the Ministry of Finance Resolutions No.24 of 2006 at 2.5% of taxable profit for the year. As per law, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

The Group calculates the contribution to KFAS at 1% of profit for the year, in accordance with the calculation based on the Foundation's Board of Directors resolution, which states that the Board of Directors' remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007.

21- EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to shareholders of the Parent Bank by the weighted average number of shares outstanding during the year.

	2010	2009
Net profit for the year attributable to shareholders of the Parent Bank (KD 000's)	**40,452**	146
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)	**(70)**	(41)
	1,271,952	1,271,981
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	**31.8**	0.1

22- SUBSIDIARIES

Name of entities	Country of incorporation	Principal business	% of Ownership 2010	2009
Al Tijari Investment Company K.S.C (Closed	Kuwait	Investment Banking	**100%**	100%
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage Services	**80%**	80%

23- 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:

	2010			**2009**		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	**-**	**-**	**-**	1	7	17,048
Credit cards	**1**	**-**	**1**	3	4	2
Deposits	**4**	**-**	**59**	7	17	2,290
Executive Management						
Loans	**6**	**1**	**119**	4	4	236
Credit cards	**11**	**5**	**1**	6	6	5
Deposits	**12**	**22**	**1,861**	13	28	3,064

The loans issued to directors, key management personnel and related members are repayable within 5 years and have interest rates of 0% to 6% (2009: 2.00 % to 6.00 %). The loans given are collateralised by real-estate and equities. The fair value of these collaterals as at 31 December 2010 is KD nil thousand (2009: KD 6,031 thousand).

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

	2010 KD 000's	**2009** KD 000's
Salaries and other short-term benefits	**(921)**	(1,206)
Post employment benefits	**(20)**	(20)
Termination benefits	**(121)**	(87)

24- FAIR VALUES OF FINANCIAL INSTRUMENTS

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 financial liabilities not represented on the Group's consolidated statement of 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 techniques and assumptions used to determine fair values of financial instruments are described in the fair value section of note 2: "Significant Accounting Policies".

25- 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 also guarantees and other commitments such as letters of credit issued by the Parent Bank.

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 consolidated statement of financial position without taking account of any collateral and other credit enhancements.

	2010	2009
Credit exposure relating to on-balance sheet items	**KD 000's**	**KD 000's**
Cash and short term funds	**208,353**	252,658
Treasury and Central Bank bonds	**500,584**	361,345
Due from banks and OFIs	**238,103**	296,123
Loans and advances - Corporate	**2,177,778**	2,285,878
Loans and advances - Retail	**403,912**	418,247
Debt securities	**44,089**	11,944
Other assets	**12,273**	28,276
	3,585,092	3,654,471
Credit exposure relating to off-balance sheet items		
Acceptances	**49,599**	34,223
Letters of credit	**155,234**	184,845
Letters of guarantee	**890,784**	849,666
Others	**37,333**	40,230
	1,132,950	1,108,964
	4,718,042	4,763,435

The primary purpose of off balance sheet financial instruments is to ensure that funds are available to customers 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 2010						
Loans and advances - Corporate	**238**	**298,328**	**1,395,332**	**104,113**	**379,767**	**159,709**
Loans and advances - Banks	**-**	**-**	**1,339**	**-**	**29,464**	**14,043**
Loans and advances - Retail	**-**	**-**	**372,434**	**13,602**	**17,876**	**-**
	238	**298,328**	**1,769,105**	**117,715**	**427,107**	**173,752**
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

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 financial institution 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

	2010 KD 000's		2009 KD 000's	
	Assets	Off Balance Sheet	Assets	Off Balance Sheet
Geographic sector				
Kuwait	**3,285,376**	**934,710**	3,322,125	906,566
Asia	**212,710**	**121,347**	213,893	125,673
Europe	**61,449**	**73,004**	4,241	72,223
USA	**19,954**	**2,774**	6,232	1,557
Others	**90**	**1,115**	4,136	2,945
	3,579,579	**1,132,950**	3,550,627	1,108,964
Industry sector				
Government	**500,584**	**-**	361,345	141,537
Trade and commerce	**325,261**	**217,124**	337,345	201,526
Construction and real estate	**675,324**	**588,608**	669,299	542,445
Banks and financial institutions	**983,162**	**91,539**	979,767	97,008
Others	**1,095,248**	**235,679**	1,202,871	126,448
	3,579,579	**1,132,950**	3,550,627	1,108,964

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

In the ordinary course of business the Group 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

As at 31 December 2010	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	**(123)**	**57,685**	**3,471**	**1,010**	**-**	**62,166**
Interest rate swaps	**-**	**-**	**-**	**-**	**-**	**-**
	(123)	**57,685**	**3,471**	**1,010**	**-**	**62,166**

KD 000's

As at 31 December 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

(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 financial assets and liabilities are as follows:

KD 000's

As at 31 December 2010	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	182,045	-	-	-	26,308	208,353	0 - 2
Treasury and Central Bank bonds	117,374	171,050	212,160	-	-	500,584	1 - 2
Due from banks and OFIs	153,721	66,106	-	-	2,855	222,682	1 - 4
Loans and advances	2,119,789	227,379	-	1,186	-	2,348,354	1 - 7
Investment securities	3,447	6,852	5,125	419	262,566	278,409	1 - 6
Investment in an associate	-	-	-	-	8,924	8,924	-
Other assets	2,332	173	-	-	9,768	12,273	-
	2,578,708	471,560	217,285	1,605	310,421	3,579,579	
LIABILITIES							
Due to banks and OFIs	262,975	73,833	441,956	-	27,568	806,332	1 - 3
Customer deposits	859,172	353,064	742,528	7,440	310,374	2,272,578	0 - 3
Other liabilities	1,150	692	1,407	-	54,394	57,643	-
	1,123,297	427,589	1,185,891	7,440	392,336	3,136,553	
Total interest rate sensitive gap	1,455,411	43,971	(968,606)	(5,835)			

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 an associates	-	-	-	-	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	446,147	-	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			

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

KD 000's

	2010 Impact on statement of income		2009 Impact on statement of income	
	±@1%	±@2%	±@1%	±@2%
Kuwaiti Dinar	**13,463**	**26,927**	9,594	19,188
US Dollar	**253**	**506**	461	921
Other currencies	**113**	**225**	32	64
	± 13,829	**± 27,658**	± 10,087	± 20,173

(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 are as follows :

	2010 KD 000's	2009 KD 000's
Net assets (liabilities)		
US Dollar	**(3,444)**	(4,062)
Euro	**50**	(222)
Saudi Riyal	**508**	1,238
Swiss Franc	**23**	47
UAE Dirham	**245**	372
Sterling Pound	**5**	(162)
Japanese Yen	**37**	(1)
Others - assets	**1,171**	1,334
Others - liabilities	**(20)**	(110)
	(1,425)	(1,566)

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 2010	KD 000's Kuwaiti dinar	US dollar	Other currencies	Total
ASSETS				
Cash and short term funds	45,816	119,374	43,163	208,353
Treasury and Central Bank bonds	500,584	-	-	500,584
Due from banks and OFIs	94,528	98,156	29,998	222,682
Loans and advances	2,170,652	158,837	18,865	2,348,354
Investment securities	240,201	37,522	686	278,409
Investment in an associates	-	8,924	-	8,924
Other assets	11,342	869	62	12,273
	3,063,123	423,682	92,774	3,579,579
LIABILITIES				
Due to banks and OFIs	636,887	146,732	22,713	806,332
Customer deposits	1,923,263	290,652	58,663	2,272,578
Other liabilities	52,515	4,653	475	57,643
	2,612,665	442,037	81,851	3,136,553
Net on balance sheet financial position	**450,458**	**(18,355)**	**10,923**	**443,026**
Contingent liabilities	**840,906**	**188,389**	**103,655**	**1,132,950**

As at 31 December 2009	KD 000's Kuwaiti dinar	US dollar	Other currencies	Total
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 an associates	-	3,721	-	3,721
Other assets	25,935	1,737	604	28,276
	2,893,599	584,833	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	**402,919**	**(5,950)**	**(884)**	**396,085**
Contingent liabilities	**763,534**	**203,857**	**141,573**	**1,108,964**

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

KD 000's

As at 31 December 2010	Impact on statement of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	(34)	(68)	375	750
Euro	1	2	7	14
Saudi Riyal	5	10	-	-
UAE Dirham	2	4	-	-
Qatari Riyal	1	2	-	-
Others	11	22	-	-
	(14)	(28)	382	764

KD 000's

As at 31 December 2009	Impact on statement 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

(C) Equity price risk

Equity price risk is the risk that the fair value of 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 the consolidated statement of income and the consolidated statement of changes in equity due to possible changes in equity indices, with all other variables held constant, is as follows:

KD 000's

	Impact on statement of income		Impact on equity	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
As at 31 December 2010				
Kuwait Stock Exchange	1	2	1,796	3,592
As at 31 December 2009				
Kuwait Stock Exchange	63	126	1,256	2,512

(iii) LIQUIDITY RISK

Liquidity risk is the risk that the Group 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 the Group 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 2010	**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	208,353	-	-	-	-	208,353
Treasury and Central Bank bonds	499,734	605	245	-	-	500,584
Due from banks and OFIs	142,532	64,769	-	-	15,381	222,682
Loans and advances	550,919	677,842	214,282	242,237	663,074	2,348,354
Investment securities	194,082	519	1,342	1,826	80,640	278,409
Investment in associate	-	-	-	-	8,924	8,924
Premises and equipment	-	-	-	-	24,652	24,652
Goodwill and intangible assets	-	-	-	-	18,372	18,372
Other assets	11,533	170	-	-	570	12,273
	1,607,153	743,905	215,869	244,063	811,613	3,622,603
LIABILITIES						
Due to banks and OFIs	246,415	101,918	204,326	247,926	5,747	806,332
Customer deposits	1,185,570	353,064	429,415	302,817	1,712	2,272,578
Other liabilities	22,344	2,258	5,393	3,812	23,836	57,643
	1,454,329	457,240	639,134	554,555	31,295	3,136,553
Net liquidity gap	152,824	286,665	(423,265)	(310,492)	780,318	486,050

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
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

(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 2010						
Contingent Liabilities	**249,763**	**199,671**	**148,080**	**212,009**	**323,427**	**1,132,950**
As at 31 December 2009						
Contingent Liabilities	201,149	221,279	158,513	201,450	326,573	1,108,964

(C) Contractual undiscounted repayment obligations by maturity

As at 31 December 2010	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
	KD 000's					
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	**246,474**	**102,052**	**205,858**	**251,485**	**5,747**	**811,616**
Customer deposits	**1,185,965**	**353,981**	**432,495**	**308,300**	**2,017**	**2,282,758**
Other liabilities	**22,344**	**2,258**	**5,393**	**3,812**	**23,837**	**57,644**
	1,454,783	**458,291**	**643,746**	**563,597**	**31,601**	**3,152,018**

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					
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

26- 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.

27- 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.

Management monitors the operating results of these segments separately for the purpose of making decisions based on key performance indicators.

KD 000's

	Corporate & Retail Banking		Treasury & Investment Banking		Total	
	2010	2009	**2010**	2009	**2010**	2009
Net interest income	**85,823**	87,055	**2,029**	16,997	**87,852**	104,052
Non interest income	**26,530**	24,669	**9,461**	28,585	**35,991**	53,254
Total revenues	**112,353**	111,724	**11,490**	45,582	**123,843**	157,306
Impairment and other provisions	**(42,236)**	(100,738)	**(8,938)**	(30,076)	**(51,174)**	(130,814)
Net profit/(loss) for the year	**52,439**	9,389	**(11,904)**	(9,237)	**40,535**	152
Total Assets	**2,406,377**	2,497,587	**1,216,226**	1,097,710	**3,622,603**	3,595,297
Total Liabilities & Equity	**1,178,258**	1,061,606	**2,444,345**	2,533,691	**3,622,603**	3,595,297
Investment in an associate	**-**	-	**8,924**	3,721	**8,924**	3,721

28- 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 as at 31 December 2010 is KD 62,052 thousand (2009: KD 95,946 thousand).

(c) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 1,898 thousand (2009: KD 2,691 thousand) has been provided.

29- CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by CBK as stipulated in 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.

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

30- 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 (CBK) 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 Commercial Bank of Kuwait S.A.K (the "Parent 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 a 32.26% interest in Al Cham Islamic Bank S.A (an associate), a private bank incorporated in Republic of Syria engaged in islamic banking activities.

The Parent Bank and its subsidiaries are collectively referred to as "the Group".

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

	2010			2009		
Name	Country	Ownership%	KD 000's	Country	Ownership%	KD 000's
Al Safat Takaful Insurance Co.	**Kuwait**	**10.00%**	**190**	Kuwait	10.00%	334

The capital ratio would have been 19.95% (2009: 18.21%) as against 19.96% (2009: 18.22%) 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 2009: 1,272,022,346) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2010, the Parent Bank held 70,000 (.01%) (31 December 2009: 70,000 (.01%)) of its own shares.

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

a. Tier 1 capital :	2010 KD 000's	2009 KD 000's
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	**113,333**	91,960
7. Own share reserve	**45,603**	45,603
8. Minority interests in consolidated subsidiaries	**1,032**	816
9. Goodwill	**(1,765)**	(1,765)
10. Significant minority investments in banking entities	**(8,924)**	(3,721)
11. Surplus capital from insurance companies	**-**	-
12. Treasury Shares	**(75)**	(75)
Total tier 1 capital	**424,725**	408,339

b. Tier 2 capital.	2010 KD 000's	2009 KD 000's
1. Asset revaluation reserve (45% only)	**9,362**	9,701
2. Fair value reserve (45% only with the concurrence of external auditors)	**4,839**	2,418
3. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**27,959**	29,310
Total tier 2 capital	**42,160**	41,429
Total eligible capital	**466,885**	449,768

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 Group has in place a framework for planning, assessing and reporting for capital adequacy and to ensure that the present and future operations of the Group are supported by adequate capital at all times. The Group 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

	2010 KD 000's			2009 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
a. Credit risk						
1. Cash items	**26,313**	**-**	**-**	35,144	-	-
2. Claims on sovereigns	**508,977**	**-**	**-**	406,467	-	-
3. Claims on international org.	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**450,907**	**95,716**	**11,486**	525,723	111,925	13,431
7. Claims on corporates	**1,714,200**	**881,176**	**105,741**	1,626,246	855,624	102,675
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**420,564**	**377,333**	**45,280**	444,274	400,045	48,005
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**252,387**	**147,483**	**17,698**	257,171	209,489	25,139
12. Other assets	**1,429,340**	**674,409**	**80,929**	1,459,565	706,997	84,840
Total	**4,802,688**	**2,176,117**	**261,134**	4,754,590	2,284,080	274,090

	2010 KD 000's			2009 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	**122**	**163**	**20**	6,287	8,379	1,005
3. Foreign exchange risk	**3,195**	**2,129**	**255**	4,555	3,035	364
4. Commodities risk	-	-	-	-	-	-
5. Options	-	-	-	-	-	-
Total	**3,317**	**2,292**	**275**	10,842	11,414	1,369
c. Operational risk	**135,591**	**160,327**	**19,239**	145,819	173,250	20,790
Total	**4,941,596**	**2,338,736**	**280,648**	4,911,251	2,468,744	296,249

B) Capital ratios

	2010	2009
1. Total capital ratio	**19.96%**	18.22%
2. Tier 1 capital ratio	**18.16%**	16.54%

IV- Risk Management

a. Risk Governance

The Risk Management division of the Group is an independent and dedicated function reporting to the 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 Group'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 Group.

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 Group 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 Group for approving investments and other executive matters beyond the authority of the management. These include approval of groupwide 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 Group 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 Group has a formal enterprise wide risk management policy, which provides detailed guidelines for a sound framework for enterprise-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 Group'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 Group has also commenced an enterprise-wide stress test based on simulations in order to analyse the impact of extreme events on the profitability and capital adequacy.

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 Group's risk grading system is a systematic methodology for analysing 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 CBK norms for credit concentration i.e. the maximum limit for credit exposure of any single customer shall not exceed 15% of the Group'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 CBK 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 Group 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 Group also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the observation period (1 or 5 year period whichever results in higher VaR) 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 Group's overall investment capacity as well as individual investments are restricted to stipulated limits and guidelines laid down by CBK.

d. Liquidity Risk

Liquidity risk is the current and prospective risk to earnings and capital arising from the Group'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 Group'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. The Group has also assessed the implications of the new global liquidity risk framework introduced by BIS and has identified the strategic actions to be taken to enable adherence to the new ratios.

e. Interest Rate Risk

Interest rate risk arises from changes in interest rates that may have an adverse impact on the Group'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 Group's exposures within the Group. The majority of assets and liabilities of the Group 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 Group'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 Group'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 groupwide 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 groupwide 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 Group 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 Group 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 consolidated statement of income.

Past due and impaired exposures are defined in accordance with the relevant CBK regulations. Specific and general provisions are computed in accordance with CBK regulations on provisioning as well as the applicable accounting standards. The CBK 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 CBK 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 down 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

	2010 KD 000's			2009 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	**26,313**	**26,313**	**-**	35,144	35,144	-
2. Claims on sovereigns	**508,977**	**508,977**	**-**	406,467	406,467	-
3. Claims on international org.	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**450,907**	**371,553**	**79,354**	525,723	433,484	92,239
7. Claims on corporates	**1,714,200**	**758,263**	**955,937**	1,626,246	719,950	906,296
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**420,564**	**404,830**	**15,734**	444,274	424,231	20,043
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**252,387**	**251,888**	**499**	257,171	256,789	382
12. Other assets	**1,429,340**	**1,347,914**	**81,426**	1,459,565	1,369,561	90,004
	4,802,688	**3,669,738**	**1,132,950**	4,754,590	3,645,626	1,108,964

(b) Average gross credit exposures

	2010 KD 000's			2009 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	**30,729**	**30,729**	**-**	75,484	75,484	-
2. Claims on sovereigns	**457,722**	**457,722**	**-**	333,619	333,619	-
3. Claims on international org.	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	4,563	4,563	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**488,316**	**402,519**	**85,797**	970,097	733,592	236,505
7. Claims on corporates	**1,670,224**	**739,107**	**931,117**	2,027,275	850,075	1,177,200
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**432,420**	**414,531**	**17,889**	433,035	415,382	17,653
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**254,780**	**254,339**	**441**	185,428	176,503	8,925
12. Other assets	**1,444,453**	**1,358,738**	**85,715**	1,408,921	1,329,873	79,048
	4,778,644	**3,657,685**	**1,120,959**	5,438,422	3,919,091	1,519,331

(c) Total credit exposures by geographic sector

As at 31 December 2010	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	**26,313**	**-**	**-**	**-**	**-**	**26,313**
2. Claims on sovereigns	**508,977**	**-**	**-**	**-**	**-**	**508,977**
3. Claims on international org.	**-**	**-**	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**-**
6. Claims on banks	**115,132**	**217,827**	**98,456**	**3,919**	**15,573**	**450,907**
7. Claims on corporates	**1,585,970**	**89,066**	**39,164**	**-**	**-**	**1,714,200**
8. Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
9. Regulatory retail	**419,644**	**742**	**145**	**31**	**2**	**420,564**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11. Past due exposure	**234,802**	**17,585**	**-**	**-**	**-**	**252,387**
12. Other assets	**1,404,540**	**20,621**	**1,770**	**2,409**	**-**	**1,429,340**
	4,295,378	**345,841**	**139,535**	**6,359**	**15,575**	**4,802,688**
Percentage of credit exposure by geographical sector	**89.4%**	**7.2%**	**2.9%**	**0.1%**	**0.3%**	**100.0%**

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	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%

(d) Funded credit exposures by geographic sector

As at 31 December 2010	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	508,977	-	-	-	-	508,977
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	115,132	177,685	63,100	1,176	14,460	371,553
7. Claims on corporates	748,346	8,262	1,655	-	-	758,263
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	404,483	341	6	-	-	404,830
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	234,303	17,585	-	-	-	251,888
12. Other assets	1,323,114	20,621	1,770	2,409	-	1,347,914
	3,360,668	224,494	66,531	3,585	14,460	3,669,738
Percentage of funded credit exposure by geographical sector	91.6%	6.1%	1.8%	0.1%	0.4%	100.0%

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%

(e) Unfunded credit exposures by geographic sector

	KD 000's					
As at 31 December 2010	**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	-	**40,142**	**35,356**	**2,743**	**1,113**	**79,354**
7. Claims on corporates	**837,624**	**80,804**	**37,509**	-	-	**955,937**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**15,161**	**401**	**139**	**31**	**2**	**15,734**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**499**	-	-	-	-	**499**
12. Other assets	**81,426**	-	-	-	-	**81,426**
	934,710	**121,347**	**73,004**	**2,774**	**1,115**	**1,132,950**
Percentage of unfunded credit exposure by geographical sector	**82.5%**	**10.7%**	**6.4%**	**0.2%**	**0.1%**	**100.0%**

	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%

(f) Total credit exposures by residual maturity

KD 000's

As at 31 December 2010	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	125,802	170,998	112,129	100,048	-	508,977
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	315,305	100,725	5,162	4,388	25,327	450,907
7. Claims on corporates	335,412	320,041	209,827	259,635	589,285	1,714,200
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	4,795	5,034	5,331	6,458	398,946	420,564
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	223,218	28,480	-	646	43	252,387
12. Other assets	506,025	413,557	78,534	135,424	295,800	1,429,340
	1,536,870	1,038,835	410,983	506,599	1,309,401	4,802,688
Percentage of total credit exposures by residual maturity	32.0%	21.6%	8.6%	10.5%	27.3%	100.0%

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	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%

(g) Funded credit exposures by residual maturity

As at 31 December 2010	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	26,313	-	-	-	-	26,313
2. Claims on sovereigns	125,802	170,998	112,129	100,048	-	508,977
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	291,668	64,146	-	-	15,739	371,553
7. Claims on corporates	142,222	172,268	70,400	93,702	279,671	758,263
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,188	971	2,772	2,821	396,078	404,830
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	222,719	28,480	-	646	43	251,888
12. Other assets	476,195	402,301	77,602	97,373	294,443	1,347,914
	1,287,107	839,164	262,903	294,590	985,974	3,669,738
Percentage of funded total credit exposures by residual maturity	35.1%	22.9%	7.2%	8.0%	26.9%	100.0%

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	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 total credit exposures by residual maturity	31.6%	23.5%	10.7%	9.2%	25.0%	100.0%

(h) Unfunded credit exposures by residual maturity

KD 000's

As at 31 December 2010	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	**23,637**	**36,579**	**5,162**	**4,388**	**9,588**	**79,354**
7. Claims on corporates	**193,190**	**147,773**	**139,427**	**165,933**	**309,614**	**955,937**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**2,607**	**4,063**	**2,559**	**3,637**	**2,868**	**15,734**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**499**	-	-	-	-	**499**
12. Other assets	**29,830**	**11,256**	**932**	**38,051**	**1,357**	**81,426**
	249,763	**199,671**	**148,080**	**212,009**	**323,427**	**1,132,950**
Percentage of unfunded total credit exposures by residual maturity	**22.0%**	**17.6%**	**13.1%**	**18.7%**	**28.5%**	**100.0%**

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	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks		43,377	5,027	7,191	8,015	92,239
7. Claims on corporates	18.1%	167,749	133,191	155,174	314,585	906,296
8. Claims on securitised assets		-	-	-	-	-
9. Regulatory retail		5,262	3,410	4,605	3,502	20,043
10. RHLs eligible for 35% RW		-	-	-	-	-
11. Past due exposure		-	-	-	-	382
12. Other assets		4,891	16,885	34,480	471	90,004
		221,279	158,513	201,450	326,573	1,108,964
Percentage of unfunded total credit exposures by residual maturity		20.0%	14.3%	18.2%	29.4%	100.0%

(i) Impaired loans by standard portfolio

	2010 KD 000's			2009 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)	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	**29,464**	**(15,421)**	**14,043**	37,413	(20,550)	16,863
7. Claims on corporates	**379,767**	**(145,818)**	**233,949**	368,709	(132,953)	235,756
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**17,876**	**(13,980)**	**3,896**	15,883	(11,712)	4,171
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	427,107	**(175,219)**	**251,888**	499,517	(242,727)	256,790

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

	2010 KD 000's		2009 KD 000's	
	General Provision	Statement of Income	General Provision	Statement of Income
1. Cash items	-	-	-	-
2. Claims on sovereigns	-	-	-	-
3. Claims on international org.	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	-	**3,238**	-	20,003
7. Claims on corporates	**52,417**	**38,685**	52,972	78,566
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	**5,823**	**377**	6,111	2,082
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	**15,298**	-	15,953	-
	73,538	**42,300**	75,036	100,651

(k) Impaired loans and provisions by geographic sector

	2010 KD 000's			2009 KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
Kuwait	**348,977**	**(111,132)**	**237,845**	364,713	(137,007)	227,706
Asia	**78,130**	**(64,087)**	**14,043**	41,705	(12,621)	29,084
Europe	**-**	**-**	**-**	3,374	(3,374)	-
USA	**-**	**-**	**-**	12,213	(12,213)	-
Others	**-**	**-**	**-**	77,512	(77,512)	-
	427,107	**(175,219)**	**251,888**	499,517	(242,727)	256,790

General provision as at 31 December 2010 amounting to KD 73,538 thousand (2009: KD 75,036 thousand) is related to Kuwait.

(l) Movement in provisions

	2010 KD 000's			2009 KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	**242,727**	**75,036**	**317,763**	116,693	87,120	203,813
Write-offs	**(106,735)**	**-**	**(106,735)**	(3,089)	-	(3,089)
Exchange differences	**2,346**	**-**	**2,346**	5,640	-	5,640
Recoveries	**(16,809)**	**-**	**(16,809)**	2,614	-	2,614
Ceded to Central Bank	**(40)**	**-**	**(40)**	(4,316)	-	(4,316)
Statement of income	**53,730**	**(1,498)**	**52,232**	125,185	(12,084)	113,101
Provisions 31 December	**175,219**	**73,538**	**248,757**	242,727	75,036	317,763

(m) Credit exposures after CRM and CCF

	2010 KD 000's		2009 KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	Unrated Exposures	Rated Exposures	Unrated Exposures
1. Cash items	**-**	**26,313**	-	35,144
2. Claims on sovereigns	**-**	**509,191**	-	406,627
3. Claims on international org.	**-**	**-**	-	-
4. Claims on PSEs	**-**	**-**	-	-
5. Claims on MDBs	**-**	**-**	-	-
6. Claims on banks	**278,251**	**133,083**	202,821	272,842
7. Claims on corporates	**-**	**941,796**	-	916,326
8. Claims on securitised assets	**-**	**-**	-	-
9. Regulatory retail	**-**	**379,757**	-	404,344
10. RHLs eligible for 35% RW	**-**	**-**	-	-
11. Past due exposure	**-**	**157,953**	-	222,576
12. Other assets	**-**	**589,257**	-	600,334
	278,251	**2,737,350**	202,821	2,858,193

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 Group 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 CBK's 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 2010	KD 000's Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	**26,313**	-	-	-
2. Claims on sovereigns	**508,977**	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	**450,907**	-	-	-
7. Claims on corporates	**1,714,200**	**531,544**	**231,724**	-
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	**420,564**	**19,866**	**31,796**	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	**252,387**	**175,522**	**94,185**	-
12. Other assets	**1,429,340**	**747,609**	**791,094**	-
	4,802,688	**1,474,541**	**1,148,799**	-

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	-

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:

	2010 KD 000's	2009 KD 000's
1. Interest rate position risk	**-**	-
2. Equity position risk	**20**	1,005
3. Foreign exchange risk	**256**	364
4. Commodities risk	**-**	-
5. Options	**-**	-
	276	1,369

VIII- Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 19,239 thousand (2009: KD 20,790 thousand) which primarily involves segregating the Group'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 CBK's 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.

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 Group are taken to comply with regulations that require the Group as fund manager to hold at a minimum 5% of the outstanding issued units. Strategic equity holdings are taken in financial institutions where the Group expects to develop a business relationship or ultimately gain control of that entity.

Equity investment securities in the Group 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 investment valuation reserve in consolidated statement of comprehensive income. When the "available for sale" investment is disposed off or impaired, any prior fair value adjustments earlier reported in consolidated statement of comprehensive income are transferred to the consolidated 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 Group 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 the Group are as follows:

	2010 **KD 000's**	**2009** **KD 000's**
1. Value of investment disclosed in the balance sheet	**215,989**	165,530
2. Type and nature of investment securities available for sale		
- Equity securities -quoted	**180,853**	126,566
- Equity securities -unquoted	**35,136**	38,964
	215,989	165,530
3. Cumulative realised gains (net) arising from sales of investment securities	**244**	18,192
4. Total unrealised gains (net) recognised in the balance sheet but not through profit and loss account	**4,581**	2,281
5. 45% of item (4) included in Tier 2 capital	**2,061**	1,026
6. Capital requirements		
Available for sale	**25,616**	19,713

X- Interest rate risk in the Banking book

Interest rate risk management is governed by the interest rate risk management policy of the Group. 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 within the Group 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:

	2010 KD 000's		2009 KD 000's	
	Impact on earnings		Impact on earnings	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
Kuwaiti dinars	**13,464**	**26,927**	9,594	19,188
US dollars	**253**	**506**	461	921
Other currencies	**113**	**225**	32	64
	± **13,829**	± **27,658**	± 10,087	± 20,173

BRANCHES NETWORK

	Telephone	FAX
Mubarak Al-Kabir	22990000	22464870
Abdulla Mubarak Street	22990005	22404826
Abu Halifa (Kuwait Magic)	22990043	23720449
Airport (Arrival)	22990004	24741951
Airport (Cargo)	24712099	24712033
Airport (Departure)	24740026	24741951
Fahaheel - Ajyal Complex	22990011	23913905
Al Rai	22990045	24724867
Al-Dhow	22990058	22411961
Ali Sabah Al Salem	22990042	23280662
Al-Naeem	22990056	24571797
Al-Rabia	22990057	24719677
Al-Soor Street	22990060	22418997
Andalus	22990036	24889129
Ardhiya	22990019	24887316
Bneid Al-Gar	22990052	22562675
Dahiyat Abdulla Mubarak	22990059	22990193
Dhaher	22990041	23830726
Dasma	22990062	22990102
East Ahmadi	22990014	23980434
Fahad Al-Salem	22990009	22990751
Fahaheel	22990006	23923779
Farwaniya Co-op	22990027	24723493
Hadiya	22990064	22990232
Hawalli	22990016	22616451
Hawalli (Beirut Str)	22990020	22621904
Jaber Al-Ali	22990017	23840191
Jabriya	22990181	25334632
Jahra	22990007	24551580
Jleeb Al Shyoukh	22990063	22990153
Khaitan	22990008	24745584
Khaldiya	22990015	24810549
Kuwait Free Trade Zone	22990038	24610062
Labour Unit	22990763	24335856
Mansouriya	22990044	22573880
Ministries Complex	22990031	22474151
Omariya	22990010	24723487
Qurain	22990024	25440035
Ras Salmiya	22990033	25719570
Rumaithiya	22990018	25654902
Sabah Al Salem	22990054	22990354
Sabahiya	22990012	23613069
Salhiya	22990030	22463492
Salmiya	22990023	25727053
Salwa	22990051	25610780
Sharq	22990026	22454869
Shuwaikh	22990021	24837952
Six Ring Road	22990034	24345382
Souk Salmiya	22990048	25737326
South Surra	22990055	22990355
Sulaibikhat	22990013	24877318
Vegetable Market	22990028	24817859
West Mishref	22990046	25379277
Yarmouk	22990032	25352182