

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1- INCORPORATION AND REGISTRATION

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

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

2- SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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(IFRS) except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision.

The policy of the Group for calculation of the impairment provisions for loans and advances complies in all material respects with the specific provision requirements of the Central Bank of Kuwait. In March 2007, the Central Bank of Kuwait issued a circular changing the rate of minimum general provision on credit facilities from 2% to 1% for cash and 0.5% for non cash credit facilities. The excess general provision as at 1 January 2007 is retained until further directive from the Central Bank of Kuwait.

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

These consolidated financial statements have been presented in Kuwaiti dinar rounded to the nearest thousand.

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

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

- i) IFRS 8: Operating Segments, which will be effective for annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the

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nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

- ii) IAS 1: Presentation of Financial Statements (Revised), which will be effective for annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of information presented.
- iii) IFRS 3: Business Combinations (Revised), which will be effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July, 2009 with prospective application, incorporates the following changes:
 - a) The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - b) Any contingent consideration will be measured at fair value, with subsequent changes therein recognized in the statement of income.
 - c) Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - d) Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in the statement of income.
 - e) Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- iv) IAS 27: Consolidated and Separate Financial Statements (Amended), which will be effective for annual periods beginning on or after 1 July, 2009 with retrospective application, requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the statement of income.

(b) Basis of consolidation

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

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on the financial information of the subsidiaries. Intra-group balances, transactions,

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income and expenses are eliminated in full. Profits and losses resulting from intra-group transactions are also eliminated in full.

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

(c) Business combinations

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

(d) Cash and short term funds

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

(e) Financial instruments

i) Classification and measurement

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

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At fair value through statement of income

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

Held to maturity

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

Loans and receivables

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

Available for sale

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

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ii) Financial liabilities

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

iii) Recognition and de-recognition

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

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

iv) Derivative financial instruments and hedge accounting

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

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

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

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the initial measurement of the cost of the related asset or liability. Otherwise, amounts deferred in equity are transferred to the consolidated statement of income in the period the hedged firm commitment or forecasted transaction affects the consolidated statement of income.

If such derivative transactions, while providing effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under the specific rules of IAS 39, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet. 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 financial statements at fair value, being the fee and commission received in advance. The fee and commission received is amortised over the life of the guarantee and recognised in the consolidated statement of income. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee liability is likely to become payable, the present value of the expected cash flows less the unamortised fee and commission is charged to the consolidated statement of income.

vi) Renegotiated loans

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

vii) Offsetting financial instruments

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

viii) Fair values

For financial instruments traded in an organised financial market, fair value is determined by reference to quoted market prices. Bid prices are used for assets

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and offer prices are used for liabilities. The fair value for investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of interest bearing financial instruments is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The estimated fair value of deposits with no stated maturity, which include non-interest bearing deposits, is the amount payable on demand.

The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using the prevailing market rate or internal pricing models.

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

ix) Amortised cost

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

x) Impairment of financial assets

"An assessment is made at each balance sheet 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 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:

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.

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- 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. 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

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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 the case of financial assets classified as available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the financial assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss measured is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available for sale equity investments are not reversed through the consolidated statement of income.

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

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

(f) Premises and equipment

Freehold land is stated at fair value, which is usually the market value, is not depreciated. Fair value is determined by annual appraisals 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 equity. A decrease in the carrying amount of an asset as a result of revaluation is recognised as an expense. 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 on 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

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

(g) Goodwill and intangible assets

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

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

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

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

(h) Treasury shares

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

Gains or losses arising on sale are separately disclosed under treasury shares reserve in equity in accordance with the instructions of the Central Bank of Kuwait. These amounts are not available for distribution, during such period the shares are held by the Bank.

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(i) Revenue recognition

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

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

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

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

(j) Foreign currencies

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

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

(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

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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 balance sheet date. The Group considers this to be a reliable approximation of the present value of this obligation.

(l) Fiduciary assets

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

(m) Significant accounting judgments and estimates

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

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

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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.

Estimation uncertainty

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

Impairment losses on loans and advances and investment in debt instruments

The Group reviews problem loans and advances and investments in debt instruments on a quarterly basis to assess whether a provision 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 provisions 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 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

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

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3- CASH AND SHORT TERM FUNDS	2008	2007
	KD 000's	KD 000's
Cash and cash items	42,631	36,553
Balances with the Central Bank of Kuwait	29,104	96,846
Deposits with banks maturing within seven days	247,974	236,625
	319,709	370,024

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

4- TREASURY AND CENTRAL BANK BONDS

Treasury bonds	193,881	180,377
Central Bank bonds	57,930	27,268
	251,811	207,645

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".

	2008	2007
	KD 000's	KD 000's
Deposits with banks	801,375	964,278
Loans and advances to banks	85,268	160,444
Amounts due from other financial institutions	56,639	84,615
	943,282	1,209,337
Less : Specific provision	(4,121)	(4,076)
	939,161	1,205,261

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(b) Non-performing loans

At 31 December 2008 non-performing loans and advances to banks granted prior to the invasion of Kuwait in 1990 amounted to KD 4,121 thousand (2007: KD 4,076 thousand). The available provision against these loans and advances is KD 4,121 thousand (2007: KD 4,076 thousand).

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;

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

As at 31 December 2007	KD 000's					Total
	Kuwait	Asia	Europe	USA	Others	
Trade and commerce	338,797	15,351	2,253	13	-	356,414
Construction and real estate	550,432	1,108	-	12,850	-	564,390
Other financial institutions	448,004	240	13,650	-	-	461,894
Retail customers	357,237	-	-	-	-	357,237
Others	565,396	2,684	-	-	73,521	641,601
	2,259,866	19,383	15,903	12,863	73,521	2,381,536
Less: Provision for impairment						(167,315)
						2,214,221

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(b) Movement in provisions for loans and advances

	2008			2007		
	KD 000's			KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	100,084	65,070	165,154	96,185	67,094	163,279
Write-offs	(3,248)	-	(3,248)	(4,010)	-	(4,010)
Exchange differences	5,053	-	5,053	728	-	728
Recoveries	1,570	-	1,570	1,600	-	1,600
Ceded to Central Bank	(123)	-	(123)	(60)	-	(60)
Charged to statement of income	6,523	22,050	28,573	5,641	(2,023)	3,618
Provisions 31 December	109,859	87,120	196,979	100,084	65,071	165,155

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

The current year specific and general provision for cash credit facilities is KD 196,979 thousand (2007: KD 165,155 thousand) in addition to KD 2,714 thousand (2007: KD 2,160 thousand) for interest in suspense (representing uncollected interest). The available provision for non-cash credit facilities of KD 17,910 thousand (2007: KD 16,708 thousand) is included in other liabilities. Further to the minimum general provision, the Group has additional provision of KD 51,600 thousand (2007: KD 26,000 thousand).

(c) Non-performing loans

At 31 December non-performing loans and advances amounted to KD 137,500 thousand (2007: KD 122,749 thousand), split between facilities granted pre-invasion and post liberation as follows:

	2008			2007		
	KD 000's			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	93,403	-	93,403	88,349	-	88,349
Granted after the liberation of Kuwait in 1991	44,097	20,491	19,170	34,400	13,689	13,895
	137,500	20,491	112,573	122,749	13,689	102,244

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

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7- INVESTMENT SECURITIES

	2008 KD 000's	2007 KD 000's
At fair value through statement of income		
Equity securities -quoted	7,598	8,293
Loans and receivables		
Debt securities -unquoted	3,379	5,095
Available for sale		
Debt securities -quoted	1,252	1,242
Debt securities -unquoted	9,642	14,275
Equity securities -quoted	31,879	140,752
Equity securities -unquoted	51,548	31,874
Others	25,194	39,454
	130,492	240,985

Available for sale equity securities-unquoted includes an investment in Al Cham Bank of KD 4,628 thousand, that is not equity accounted as it is not material.

During the year, the Group recognised an unrealised loss of KD 9,255 thousand (2007: unrealised gain of KD 17,011 thousand) in equity as arising from changes in fair value and re-cycled a gain of KD 4,658 thousand (2007: KD 16,479 thousand) to income on disposal of "available for sale" investment securities. Impairment loss of KD 27,208 thousand (2007: nil) was also charged to consolidated statement of income.

It was not possible to reliably measure the fair value of unquoted equity securities amounting to KD 8,904 thousand (2007: KD 18,288 thousand) due to non availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses, if any.

8- GOODWILL AND INTANGIBLE ASSETS

	2008 KD 000's	2007 KD 000's
Goodwill (Note 2 g)	1,765	-
Intangible assets	16,897	-
	18,662	-

Intangible assets represents the value of a brokerage license (KD 16,185 thousand), patents (KD 57 thousand) and customer relationship (KD 655 thousand) resulting from the acquisition of a subsidiary during the year (note 21). The brokerage license is considered to have an indefinite useful life. As at 31 December 2008 there was no

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indication of any impairment of this particular asset. The customer relationship will be amortised over a period of 5 years.

9- OTHER ASSETS	2008	2007
	KD 000's	KD 000's
Accrued interest receivable	17,073	14,852
Receivable on sale of local securities	48,846	-
Others	119,732	8,657
	185,651	23,509

Other assets are classified as "loans and receivables".

Others include an amount receivable of KD 93,536 thousand, being the value of a transaction, for which the counterparty has a buy-back option to purchase the underlying securities at a future date at a specified price. Based on the agreement, the Bank purchased the underlying securities from the counterparty through the Kuwait Stock Exchange. Subsequently, the counterparty has proposed to terminate this agreement. As at the balance sheet date, the Bank owns the title of the underlying securities. The Bank proposes to settle the transaction in due course through the Kuwait Stock Exchange with the counterparty repurchasing the underlying securities from the Bank and paying the agreed purchase consideration.

10- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008	2007
	KD 000's	KD 000's
Due to banks		
Current accounts and demand deposits	140,374	29,765
Time deposits	251,471	626,850
	391,845	656,615
Deposits from other financial institutions		
Current accounts and demand deposits	107,223	49,699
Time deposits	543,625	303,182
	650,848	352,881
	1,042,693	1,009,496

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11- CUSTOMER DEPOSITS

	2008	2007
	KD 000's	KD 000's
Current accounts and demand deposits	274,692	268,489
Saving accounts	238,694	236,701
Call deposits	17,138	23,147
Time deposits	2,114,316	2,107,513
	2,644,840	2,635,850

12- OTHER LIABILITIES

	2008	2007
	KD 000's	KD 000's
Accrued interest payable	36,774	33,990
Deferred income	18,414	19,472
Provision for non-cash facilities & others	22,460	20,520
Staff related accruals	5,125	4,261
Others	38,952	22,308
	121,725	100,551

13- Equity

(a) Share capital

The share capital comprises of 1,272,022,346 (2007: 1,211,449,853) 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

	2008	2007
Number of treasury shares	-	5,166,651
Percentage of treasury shares	-	0.4%
Cost of shares (KD 000's)	-	7,223
Fair value of shares (KD 000's)	-	7,647

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 Bank.

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(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 Bank's Articles of Association, the Bank has transferred KD 3,029 thousand (2007: KD 2,884 thousand) to statutory reserve, to reach 50% of the share capital.

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

The general reserve was created in accordance with the Bank's Articles of Association and is available for distribution. During the years 2008 and 2007 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 Bank and is not available for distribution.

(f) Property revaluation reserve

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

(g) Fair valuation reserve

This represents gains or losses arising from changes in the fair value of "available for sale" financial assets. 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 recommends the distribution of a cash dividend of 40 fils per share (KD 50,881 thousand) subject to shareholders approval. Such dividend shall be payable to the shareholders registered in the Bank's records as of the date of the Annual General Assembly.

The Annual General Assembly held on 02 March 2008 approved the distribution of cash dividend of 85 fils per share (KD 102,534 thousand) and a bonus issue of 5 shares for every 100 shares held as of the date of the Annual General Assembly (KD 6,057 thousand).

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14- INTEREST INCOME

	2008 KD 000's	2007 KD 000's
Loans and advances to banks and customers	194,405	157,807
Interbank transactions and placements	53,473	51,407
Government debt bond	-	19
Bonds and other investments	9,291	13,097
	257,169	222,330

Interest income includes a release of KD 3,797 thousand (2007: charge KD 11,999 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the year 2007, as per Central Bank circular 2/202BS RSA/2007 dated February 13, 2007.

Interest income also includes a net charge of KD 520 thousand due to adjustments arising from revised estimates of future cash flows discounted at the original contracted rates from a portfolio of performing loans that have had their terms modified during the year as per Central Bank circular 2/105 dated April 23, 2008.

15- INTEREST EXPENSE

	2008 KD 000's	2007 KD 000's
Customer deposits	(102,334)	(89,106)
Interbank transactions and deposits	(37,681)	(42,881)
Long term borrowings and subordinated loan	(586)	(1,152)
	(140,601)	(133,139)

16- NET GAIN FROM INVESTMENT SECURITIES

	2008 KD 000's	2007 KD 000's
Unrealised loss on investments at fair value statement of income	(6,000)	(49)
Realised gain / (loss) on sale of investment at fair value through statment of income	327	2,100
Realised gain on sale of available for sale investments	40,315	23,607
	34,642	25,658

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17- OTHER OPERATING INCOME

	2008 KD 000's	2007 KD 000's
Communication recoveries	1,198	748
Rental income	71	31
Others	128	31
	1,397	810

18- IMPAIRMENT AND OTHER PROVISIONS

The following amounts were charged to the consolidated statement of income during the year:

	2008 KD 000's	2007 KD 000's
Loans and advances to customers - specific	(6,523)	(5,641)
Loans and advances to customers - general	(22,050)	2,023
Non cash facilities	(1,202)	(2,010)
Investment securities	(27,208)	-
Other provisions	(706)	(1,049)
	(57,689)	(6,677)

19- TAXES AND CONTRIBUTIONS

	2008 KD 000's	2007 KD 000's
National Labour Tax	(2,563)	(2,962)
Contribution to Kuwait Foundation for Advancement of Sciences	(1,024)	(1,231)
Zakat	(967)	(73)
	(4,554)	(4,266)

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

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

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

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20- EARNINGS PER SHARE

	2008	2007
Net profit for the year attributable to shareholders' of the Bank (KD 000's)	100,655	120,356
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)	(23,442)	(5,916)
	1,248,580	1,266,106
Earnings per share attributable to shareholders' of the Bank (fils)	80.6	95.1

Earnings per share for the year ended 31 December 2007 was 99.8 fils before retroactive adjustment relating to the bonus shares issued.

21- SUBSIDIARIES

- In December 2007, the Bank incorporated a 100% owned subsidiary, Tijari Investment Company K.S.C. (Closed) engaged in investment banking activities, with an authorized and subscribed capital of KD 15,000 thousand.
- In February 2008, the Bank acquired 51% of the equity of Union Securities Brokerage Company K.S.C. (Closed) engaged in brokerage services, for a consideration of KD 13,853 thousand. In April 2008, the percentage of holding was increased to 80% for a total purchase consideration of KD 21,730 thousand.

The fair values assigned to identifiable assets and liabilities of Union Securities Brokerage Company K.S.C (Closed) at the date of acquisition are shown below:

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	KD 000's
Assets	
Cash and cash equivalents	830
Investments	2,256
Other operating assets	925
Property and equipment	108
Development cost	73
Identified intangible assets	21,050
	25,242
Liabilities	(286)
Net assets	24,956
Minority interest	(4,991)
Value of net assets acquired by the Bank	19,965
Goodwill arising on acquisition	1,765
Cost of acquisition	21,730
Cash and cash equivalents in the subsidiary	(830)
Cash outflow on acquisition	20,900

22- 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 balance sheet date are as follows:

	2008			2007		
	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	2	34,908	1	2	34,333
Credit cards	1	3	11	2	4	3
Deposits	7	16	511	6	15	238
Executive Management						
Loans	14	1	298	10	1	376
Credit cards	9	6	13	5	8	7
Deposits	14	31	5,464	12	32	851

The loans issued to directors, key management personnel and related members are repayable within 4 years and have interest rates of 4.50 % to 7.75 % (2007: 5.00 % to 8.75 %). The loans given are collateralised by real-estate and equities. The fair

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value of these collaterals as at 31 December 2008 is KD 55,649 thousand (2007: KD 50,370 thousand).

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

	2008 KD 000's	2007 KD 000's
Interest income	2,228	2,577
Interest expense	(73)	(37)
Key management compensation:		
Short-term benefits	(1,293)	(950)
Post employment benefits	(17)	(14)
Termination benefits	(219)	(342)

23- FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

Fair values of interest bearing financial assets and liabilities not represented on the Group's consolidated balance sheet 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.

24- 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 on-balance sheet loans and advances but the Bank also enters into guarantees and other commitments such as letters of credit and performance and other bonds.

The use of financial instruments also brings with it the associated inherent risks.

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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 balance sheet date without taking account of any collateral and other credit enhancements.

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	2008 KD 000's	2007 KD 000's
Credit exposure relating to on balance sheet items		
Cash and short term funds	319,709	370,024
Treasury and Central Bank bonds	251,811	207,645
Due from banks and OFIs	943,282	1,209,337
Loans and advances - Corporate	2,257,551	2,024,299
Loans and advances - Retail	372,523	357,237
Debt securities	14,273	20,612
Other assets	185,651	23,509
	4,344,800	4,212,663
	2008 KD 000's	2007 KD 000's
Credit exposure relating to off balance sheet items		
Acceptances	252,065	79,422
Letters of credit	562,471	658,198
Letters of guarantee	1,122,408	1,021,150
Others	42,251	36,265
	1,979,195	1,795,035
	6,323,995	6,007,698

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

C) Collateral and other credit enhancements

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

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

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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.

	Neither past due nor impaired			Past due but not impaired 0 - 90 days	Impaired	Fair value of collateral
	Superior grade	Good grade	Standard grade			
KD 000's						
As at 31 December 2008						
Loans and advances - Corporate	85,763	1,506,961	484,615	41,443	125,856	44,302
Loans and advances - Banks	1,270	1,197	78,680	-	4,121	-
Loans and advances - Retail	-	372,523	-	1,269	11,644	-
	87,033	1,880,681	563,295	42,712	141,621	44,302
As at 31 December 2007						
Loans and advances - Corporate	99,867	1,309,221	492,359	7,881	114,971	16,203
Loans and advances - Banks	13,782	2,155	140,431	-	4,076	-
Loans and advances - Retail	-	347,994	-	1,465	7,778	-
	113,649	1,659,370	632,790	9,346	126,825	16,203

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

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

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E) Concentration of financial assets and off balance sheet items

	2008		2007	
	KD 000's		KD 000's	
	Assets	Off Balance Sheet	Assets	Off Balance Sheet
Geographic sector				
Kuwait	3,125,468	1,602,919	2,710,544	1,412,138
Asia	905,787	217,525	1,099,132	230,346
Europe	97,800	89,013	207,150	91,210
USA	11,931	53,295	16,200	39,833
Others	-	16,443	8,246	21,508
	4,140,986	1,979,195	4,041,272	1,795,035
Industry sector				
Government	251,810	127,332	207,646	71,478
Trade and commerce	374,667	774,426	339,984	483,723
Construction and real estate	673,558	477,570	527,339	537,837
Banks and financial institutions	1,715,269	427,260	2,033,091	382,617
Others	1,125,682	172,607	933,212	319,380
	4,140,986	1,979,195	4,041,272	1,795,035

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

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

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

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

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

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	KD 000's					Total
	Fair value	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	
Notional balance - 2008						
FX forward contracts	41	115,459	3,727	-	-	119,186
Interest rate swaps	(11)	-	-	-	213	213
	30	115,459	3,727	-	213	119,399
Notional balance - 2007						
FX forward contracts	(455)	163,563	7,890	58,961	-	230,414
Interest rate swaps	10	-	-	-	350	350
	(445)	163,563	7,890	58,961	350	230,764

(ii) MARKET RISK

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

A) Interest rate risk

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

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

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As at 31 December 2008	KD 000's						% Effective rate of Interest
	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	
ASSETS							
Cash and short term funds	291,886	-	-	-	27,823	319,709	0 - 4
Treasury and Central Bank bonds	51,452	65,270	129,486	5,339	264	251,811	2 - 4
Due from banks and OFIs	407,024	334,712	182,835	14,590	-	939,161	6 - 7
Loans and advances	2,231,870	167,639	81,640	22,242	(73,010)	2,430,381	4 - 9
Investment securities	2,784	7,826	8,311	-	111,571	130,492	4 - 5
Premises and equipment	-	-	-	-	30,784	30,784	-
Goodwill and intangible assets	-	-	-	-	18,662	18,662	-
Other assets	28,403	2,677	2,391	-	152,180	185,651	-
	3,013,419	578,124	404,663	42,171	268,274	4,306,651	
LIABILITIES							
Due to banks and OFIs	638,869	158,178	201,266	-	44,380	1,042,693	3 - 5
Customer deposits	1,198,974	675,581	507,329	1,515	261,441	2,644,840	0 - 5
Other liabilities	4,390	1,300	2,328	545	113,162	121,725	-
	1,842,233	835,059	710,923	2,060	418,983	3,809,258	
Total interest rate sensitive gap	1,171,186	(256,935)	(306,260)	40,111			

As at 31 December 2007	KD 000's						% Effective rate of Interest
	Up to 1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	
ASSETS							
Cash and short term funds	341,489	-	-	-	28,535	370,024	0 - 5
Treasury and Central Bank bonds	9,001	36,273	151,401	10,963	7	207,645	5 - 6
Due from banks and OFIs	468,891	79,492	613,242	43,636	-	1,205,261	6 - 8
Loans and advances	1,977,138	237,587	28,211	23,913	(52,628)	2,214,221	4 - 10
Investment securities	2,759	9,720	8,823	-	219,683	240,985	6 - 7
Premises and equipment	-	-	-	-	27,648	27,648	-
Other assets	7,960	1,596	5,296	-	8,657	23,509	-
	2,807,238	364,668	806,973	78,512	231,902	4,289,293	
LIABILITIES							
Due to banks and OFIs	758,403	119,766	97,411	-	33,916	1,009,496	3 - 5
Customer deposits	1,173,243	331,520	860,959	1,639	268,489	2,635,850	0 - 6
Subordinated loan	-	16,380	-	-	-	16,380	6
Other liabilities	2,783	220	679	1,496	95,373	100,551	-
	1,934,429	467,886	959,049	3,135	397,778	3,762,277	
Total interest rate sensitive gap	872,809	(103,218)	(152,076)	75,377			

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

	KD 000's			
	2008		2007	
	Impact on statement of income		Impact on statement of income	
	±@1%	±@2%	±@1%	±@2%
Kuwaiti Dinar	8,596	17,192	8,195	16,390
US Dollar	4	8	609	1,217
Other currencies	110	220	(735)	(1,470)
	± 8,710	± 17,420	± 8,069	± 16,137

B) Currency risk

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

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

Net assets (liabilities)	2008	2007
	KD 000's	KD 000's
US Dollar	(1,851)	139
Euro	39	71
Saudi Riyal	(52)	686
Swiss Franc	342	68
UAE Dirham	338	323
Sterling Pound	(11)	(6)
Japanese Yen	-	5
Others - assets	1,833	954
Others - liabilities	(132)	(328)
	506	1,912

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.

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As at 31 December 2008	KD 000's			
	Kuwaiti dinar	US dollar	Other currencies	Total
ASSETS				
Cash and short term funds	124,867	181,651	13,191	319,709
Treasury and Central Bank bonds	251,811	-	-	251,811
Due from banks and OFIs	54,500	875,962	8,699	939,161
Loans and advances	2,219,162	193,213	18,006	2,430,381
Investment securities	102,889	26,827	776	130,492
Other assets	33,822	35,115	495	69,432
	2,787,051	1,312,768	41,167	4,140,986
LIABILITIES				
Due to banks and OFIs	961,878	75,115	5,700	1,042,693
Customer deposits	1,303,312	1,310,514	31,014	2,644,840
Other liabilities	97,206	24,330	189	121,725
	2,362,396	1,409,959	36,903	3,809,258
Net on balance sheet financial position	424,655	(97,191)	4,264	331,728
Contingent liabilities	884,552	860,521	234,722	1,979,795

As at 31 December 2007	KD 000's			
	Kuwaiti dinar	US dollar	Other currencies	Total
ASSETS				
Cash and short term funds	174,281	163,277	32,466	370,024
Treasury & Central Bank bonds	207,645	-	-	207,645
Due from banks & other financial institutions	80,714	1,090,941	33,606	1,205,261
Loans and advances	1,943,953	211,842	58,426	2,214,221
Investment securities	127,981	39,309	73,695	240,985
Other assets	7,590	15,568	351	23,509
	2,542,164	1,520,937	198,544	4,261,645
LIABILITIES				
Due to banks & other financial institutions	712,068	172,371	125,057	1,009,496
Customer deposits	1,230,947	1,279,684	125,219	2,635,850
Subordinated loan	-	16,380	-	16,380
Other liabilities	80,453	19,061	1,037	100,551
	2,023,468	1,487,496	251,313	3,762,277
Net on balance sheet financial position	518,696	33,441	(52,769)	499,368
Contingent liabilities	788,419	820,995	185,621	1,795,035

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

As at 31 December 2008	KD 000's			
	Impact on statement of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	(19)	(38)	267	534
Euro	-	-	8	16
Bahraini Dinar	5	10	-	-
Saudi Riyal	(1)	(2)	-	-
UAE Dirham	3	6	-	-
Qatari Riyal	2	4	-	-
Others	15	30	-	-
	5	10	275	550

As at 31 December 2007	KD 000's			
	Impact on statement of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	1	3	391	783
Euro	1	1	8	16
Bahraini Dinar	1	1	729	1,458
Saudi Riyal	7	14	-	-
UAE Dirham	3	6	-	-
Qatari Riyal	1	2	-	-
Others	5	11	-	-
	19	38	1,128	2,257

C) Equity price risk

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

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

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	KD 000's			
	Impact on statement of income		Impact on equity	
	+ @ 1%	+ @ 2%	+ @ 1%	+ @ 2%
As at 31 December 2007				
Kuwait Stock Exchange	75	150	309	618
Bahrain Stock Exchange	-	-	-	-
As at 31 December 2007				
Kuwait Stock Exchange	83	166	668	1,336
Bahrain Stock Exchange	-	-	729	1,458

(iii) LIQUIDITY RISK

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

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

As at 31 December 2008	KD 000's					Total
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
ASSETS						
Cash and short term funds	319,706	3	-	-	-	319,709
Treasury and Central Bank bonds	251,138	387	286	-	-	251,811
Due from banks and OFIs	407,027	334,712	172,550	10,286	14,586	939,161
Loans and advances	570,450	525,434	385,545	373,394	575,558	2,430,381
Investment securities	63,046	45	1,344	-	66,057	130,492
Premises and equipment	-	-	-	-	30,784	30,784
Goodwill and intangible assets	-	-	-	-	18,662	18,662
Other assets	178,701	2,611	2,392	-	1,947	185,651
	1,790,068	863,192	562,117	383,680	707,594	4,306,651

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As at 31 December 2008	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
LIABILITIES						
Due to banks and OFIs	699,833	141,647	182,126	19,087	-	1,042,693
Customer deposits	1,460,417	675,582	259,408	247,919	1,514	2,644,840
Other liabilities	62,283	6,532	7,546	5,010	40,354	121,725
	2,222,533	823,761	449,080	272,016	41,868	3,809,258
Net liquidity gap	(432,465)	39,431	113,037	111,664	665,726	497,393

As at 31 December 2007	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
ASSETS						
Cash and short term funds	370,024	-	-	-	-	370,024
Treasury and Central Bank bonds	205,523	1,390	732	-	-	207,645
Due from banks and OFIs	468,858	79,493	189,547	423,695	43,668	1,205,261
Loans and advances	323,989	464,163	396,483	332,322	697,264	2,214,221
Investment securities	179,301	80	118	-	61,486	240,985
Premises and equipment	-	-	-	-	27,648	27,648
Other assets	15,063	1,600	2,505	2,790	1,551	23,509
	1,562,758	546,726	589,385	758,807	831,617	4,289,293

LIABILITIES						
Due to banks and OFIs	792,316	119,768	85,845	11,567	-	1,009,496
Customer deposits	1,441,739	331,519	324,226	536,733	1,633	2,635,850
Subordinated loan	-	-	-	-	16,380	16,380
Other liabilities	42,150	6,040	6,950	5,246	40,165	100,551
	2,276,205	457,327	417,021	553,546	58,178	3,762,277
Net liquidity gap	(713,447)	89,399	172,364	205,261	773,439	527,016

(b) Contractual expiry by maturity

	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
As at 31 December 2008						
Contingent Liabilities	245,367	308,221	327,987	688,486	409,134	1,979,195
As at 31 December 2007						
Contingent Liabilities	180,235	370,271	297,715	650,259	296,555	1,795,035

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(c) Contractual undiscounted repayment obligations by maturity

As at 31 December 2008	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	700,076	142,771	184,912	19,440	-	1,047,199
Customer deposits	1,462,072	679,057	263,641	257,705	1,668	2,664,143
Other liabilities	62,283	6,532	7,546	5,010	40,354	121,725
	2,224,431	828,360	456,099	282,155	42,022	3,833,067

As at 31 December 2007	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
UNDISCOUNTED LIABILITIES						
Due to banks and OFIs	793,357	120,676	87,932	11,976	-	1,013,941
Customer deposits	1,443,354	335,882	332,738	559,422	1,797	2,673,193
Subordinated loan	-	228	231	467	22,402	23,328
Other liabilities	42,150	6,040	6,950	5,246	40,165	100,551
	2,278,861	462,826	427,851	577,111	64,364	3,811,013

25- 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 Bank'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.

26- SEGMENTAL ANALYSIS

(a) By business units

The Group operates in three business segments namely banking, brokerage services and investment banking activities, which is segmented between international and other domestic activities.

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	2008 KD 000's			2007 KD 000's		
	Domestic	International	Total	Domestic	International	Total
Interest income	250,491	6,678	257,169	214,169	8,161	222,330
Non interest income	78,621	2,809	81,430	70,941	2,179	73,120
Total revenues	329,112	9,487	338,599	297,108	10,341	307,449
Impairment and other provisions	(57,689)	-	(57,689)	(6,677)	-	(6,677)
Net profit for the year	97,055	3,675	100,730	116,588	3,768	120,356
Assets	4,224,620	82,031	4,306,651	4,114,573	174,720	4,289,293
Liabilities & Equity	4,283,394	23,257	4,306,651	4,265,106	24,187	4,289,293

B) By geographic sector

All business is conducted from Kuwait. Geographic segment information relating to location of assets is given in note 24 (b)(i)(E).

27- OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

In the normal course of business the Group makes commitments to extend credit to customers. The contracted amounts represent the credit risk assuming that the amounts are fully advanced and that any collateral is of no value. The total contractual amount of the commitment does not necessarily represent the future cash requirement as in many cases these contracts terminate without being funded.

(b) Fiduciary assets

The Group manages investment and money market funds as investment manager and trustee, the net asset value of which at 31 December 2008 is KD 127,020 thousand (2007: KD 194,751 thousand).

(c) Legal claims

At the balance sheet date certain legal claims existed against the Group and for which KD 3,109 thousand (2007: KD 2,371 thousand) has been provided.

28- CAPITAL ADEQUACY

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

29- COMPARATIVE FIGURES

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