

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

1 INCORPORATION AND REGISTRATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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(IFRS) except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement of a minimum general provision.

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

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

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

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

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

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

(b) Basis of consolidation

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

i) Subsidiaries

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

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

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

ii) Associates

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(c) Business combinations

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

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

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

(d) Cash and short term funds

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

(e) Financial instruments

(i) Classification and measurement

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

At fair value through statement of income

Financial assets "at fair value through statement of income" are further divided into two sub categories: "held for trading" and "designated at fair value through statement of income at inception". A financial asset is classified as held for trading



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

Held to maturity

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

Loans and receivables

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

Available for sale

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

(ii) Financial liabilities

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(iii) Recognition and de-recognition

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

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

(iv) Derivative financial instruments and hedge accounting

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

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

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

(v) Financial guarantees

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

(vi) Renegotiated loans

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

(vii) Offsetting financial instruments

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

(viii) Fair values

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

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

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

(ix) Amortised cost

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

(x) Impairment of financial assets

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

i) Assets carried at amortised cost

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

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

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

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

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

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

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

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

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

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

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

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

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

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

The amount of impairment loss is measured for financial assets carried at amortised cost, such as loans and advances, as the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the recovered asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If in a subsequent period, the amount

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charges for credit losses.

ii) Assets classified as available for sale

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

(f) Premises and equipment

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

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

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

Premises and equipment are reviewed periodically for any impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount,



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

the asset is written down to its recoverable amount and the resultant impairment loss is taken to consolidated statement of income.

(g) Goodwill and intangible assets

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

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

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

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

(h) Treasury shares

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(i) Revenue recognition

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

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

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

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

(j) Foreign currencies

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

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

(k) Termination pay

The Group is liable under Kuwait Labour Law, to make payments to employees for



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

post-employment benefits in respect of defined benefit plans. This liability is finally computed and fully settled at the end of an employee's service.

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

(l) Fiduciary assets

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

(m) Significant accounting judgments and estimates

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

Judgments

Classification of investments

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

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

Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment. The Group evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance; changes in technology; and operational and financing cash flows.

Estimates

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

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

Valuation of unquoted equity investments

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

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

Impairment of goodwill and intangible assets

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| 3- CASH AND SHORT TERM FUNDS | 2009 | 2008 |
|------------------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Cash and cash items | 45,912 | 42,631 |
| Balances with the Central Bank of Kuwait | 45,127 | 29,104 |
| Deposits with banks maturing within seven days | 161,619 | 247,974 |
| | 252,658 | 319,709 |

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

| 4- TREASURY AND CENTRAL BANK BONDS | 2009 | 2008 |
|-------------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Treasury bonds | 215,345 | 193,881 |
| Central Bank bonds | 146,000 | 57,930 |
| | 361,345 | 251,811 |

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

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

5- DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Classification

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(b) Non-performing loans

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

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

6- LOANS AND ADVANCES

(a) Classification

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| 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 |

(b) Movement in provisions for loans and advances

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(c) Non-performing loans

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

| | 2009 | | | 2008 | | |
|-------------------------------------------------|----------------|------------------|---------------------|----------------|------------------|---------------------|
| | 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 | 98,840 | - | 98,840 | 93,403 | - | 93,403 |
| Granted after the liberation of Kuwait in 1991 | 363,264 | 81,452 | 123,338 | 44,097 | 20,491 | 19,170 |
| | 462,104 | 81,452 | 222,178 | 137,500 | 20,491 | 112,573 |

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

7- INVESTMENT SECURITIES

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

8- INVESTMENT ASSOCIATE

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

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

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

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

9- GOODWILL AND INTANGIBLE ASSETS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| 10- OTHER ASSETS | 2009 | 2008 |
|----------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Accrued interest receivable | 1,369 | 17,073 |
| Receivable on sale of local securities | - | 48,846 |
| Others | 26,907 | 119,732 |
| | 28,276 | 185,651 |

Other assets are classified as "loans and receivables".

11- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

| 12- CUSTOMER DEPOSITS | 2009 | 2008 |
|--------------------------------------|------------------|------------------|
| | KD 000's | KD 000's |
| Current accounts and demand deposits | 271,281 | 274,692 |
| Saving accounts | 271,761 | 238,694 |
| Call deposits | 23,337 | 17,138 |
| Time deposits | 1,475,530 | 2,114,316 |
| | 2,041,909 | 2,644,840 |

| 13- OTHER LIABILITIES | 2009 | 2008 |
|--------------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Accrued interest payable | 14,027 | 36,774 |
| Deferred income | 2,401 | 18,414 |
| Provision for non-cash facilities & others | 21,652 | 22,460 |
| Staff related accruals | 383 | 5,125 |
| Others | 30,156 | 38,952 |
| | 68,619 | 121,725 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

14- Equity

(a) Share capital

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

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

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

(c) Share premium

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

(d) Statutory and general reserves

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

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

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

(e) Treasury shares reserve

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(f) Property revaluation reserve

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

(g) Fair valuation reserve

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

(h) Proposed dividend and bonus shares

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

15- INTEREST INCOME

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

Interest income includes a release of KD 3,476 thousand (2008: KD 3,277 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the year 2007 and 2008, as per Central Bank circular 2/202BS RSA/2007 dated February 13, 2007 and Central Bank circular 2/105 dated April 23, 2008.

16- INTEREST EXPENSE

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| 17- NET GAIN FROM INVESTMENT SECURITIES | 2009 | 2008 |
|---------------------------------------------------------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Unrealised gain/ (loss) on investments at fair value through statement of income | 488 | (6,000) |
| Realised (loss)/ gain on sale of investment at fair value through statement of income | (1,474) | 327 |
| Realised gain on sale of available for sale investments | 19,589 | 40,315 |
| | 18,603 | 34,642 |

| 18- OTHER OPERATING INCOME | 2009 | 2008 |
|-----------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Communication recoveries | 706 | 1,198 |
| Rental income | 60 | 71 |
| Others | 66 | 128 |
| | 832 | 1,397 |

| 19- GENERAL AND ADMINISTRATION | 2009 | 2008 |
|---------------------------------------|-----------------|-----------------|
| | KD 000's | KD 000's |
| Premises and occupancy | (1,684) | (1,504) |
| IT and software costs | (1,288) | (1,301) |
| Marketing and public relations | (1,034) | (1,537) |
| Professional Services | (2,232) | (2,166) |
| Communications | (303) | (393) |
| Other administration expenses | 1,036 | (6,365) |
| | (5,505) | (13,266) |

20- IMPAIRMENT AND OTHER PROVISIONS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

21- TAXES AND CONTRIBUTIONS

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

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

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

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

22- EARNINGS PER SHARE

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

23- SUBSIDIARIES

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

24- RELATED PARTY TRANSACTIONS

During the year certain related parties (directors and officers of the Group, their families and companies of which they are principal owners) were customers of the Group in the ordinary course of business. Such transactions were made on substantially the same terms including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than the normal amount of risk. The balances at the date of statement of financial position are as follows:

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

25- FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

- i) Level 1 – Quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

26- FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

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

(b) Overall risk management

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

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

(i) CREDIT RISK

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

A) Credit risk concentration

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

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

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

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

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

C) Collateral and other credit enhancements

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

D) Credit quality of credit exposure

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

KD 000's

| | Neither past due nor impaired | | | Past due but not impaired 0 - 90 days | Impaired | Fair value of collateral |
|--------------------------------|-------------------------------|------------------|----------------|------------------------------------------|----------------|--------------------------|
| | Superior grade | Good grade | Standard grade | | | |
| As at 31 December 2009 | | | | | | |
| Loans and advances - Corporate | 9,567 | 901,469 | 918,060 | 10,563 | 446,220 | 82,350 |
| Loans and advances - Banks | 1,392 | 77 | 6,113 | - | 37,342 | 14,353 |
| Loans and advances - Retail | - | 402,364 | - | - | 15,883 | - |
| | 10,959 | 1,303,910 | 924,173 | 10,563 | 499,445 | 96,703 |

As at 31 December 2008

| | | | | | | |
|--------------------------------|---------------|------------------|----------------|---------------|----------------|---------------|
| Loans and advances - Corporate | 85,763 | 1,506,961 | 484,615 | 41,443 | 125,856 | 44,302 |
| Loans and advances - Banks | 1,270 | 1,197 | 78,680 | - | 4,121 | - |
| Loans and advances - Retail | - | 372,523 | - | 1,269 | 11,644 | - |
| | 87,033 | 1,880,681 | 563,295 | 42,712 | 141,621 | 44,302 |

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

E) Concentration of financial assets and off balance sheet items

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

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

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

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

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| Notional balance - 2009 | KD 000's | | | | | Total |
|-------------------------|----------------------------------|--------------|---------------|----------------|-------------|--------|
| | Notional amount by term maturity | | | | | |
| | Fair value | Up to1 Month | 1 to 3 Months | 3 to 12 Months | Over 1 Year | |
| FX forward contracts | (19) | - | 30,128 | - | - | 30,128 |
| Interest rate swaps | (2) | - | 74 | - | - | 74 |
| | (21) | - | 30,202 | - | - | 30,202 |

| Notional balance - 2008 | KD 000's | | | | | Total |
|-------------------------|----------------------------------|--------------|---------------|----------------|-------------|---------|
| | Notional amount by term maturity | | | | | |
| | Fair value | Up to1 Month | 1 to 3 Months | 3 to 12 Months | Over 1 Year | |
| FX forward contracts | 41 | 115,459 | 3,727 | - | - | 119,186 |
| Interest rate swaps | (11) | - | - | - | 213 | 213 |
| | 30 | 115,459 | 3,727 | - | 213 | 119,399 |

(ii) MARKET RISK

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

A) Interest rate risk

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

KD 000's

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

KD 000's

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

| | KD 000's | | | |
|------------------|-------------------------------|-----------------|-------------------------------|-----------------|
| | 2009 | | 2008 | |
| | Impact on statement of income | | Impact on statement of income | |
| | ±@1% | ±@2% | ±@1% | ±@2% |
| Kuwaiti Dinar | 9,594 | 19,188 | 8,596 | 17,192 |
| US Dollar | 461 | 921 | 4 | 8 |
| Other currencies | 32 | 64 | 110 | 220 |
| | ± 10,087 | ± 20,173 | ± 8,710 | ± 17,420 |

B) Currency risk

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

| 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 associates | 3,721 | - | - | 3,721 |
| Other assets | 25,935 | 1,737 | 604 | 28,276 |
| | 2,897,320 | 581,112 | 72,195 | 3,550,627 |
| LIABILITIES | | | | |
| Due to banks and OFIs | 872,390 | 126,139 | 45,485 | 1,044,014 |
| Customer deposits | 1,566,738 | 455,373 | 19,798 | 2,041,909 |
| Other liabilities | 51,552 | 9,271 | 7,796 | 68,619 |
| | 2,490,680 | 590,783 | 73,079 | 3,154,542 |
| Net on balance sheet financial position | 406,640 | (9,671) | (884) | 396,085 |
| Contingent liabilities | 763,534 | 203,857 | 141,573 | 1,108,964 |

| As at 31 December 2008 | 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 | 150,041 | 35,115 | 495 | 185,651 |
| | 2,903,270 | 1,312,768 | 41,167 | 4,257,205 |
| LIABILITIES | | | | |
| Due to banks and OFIs | 961,878 | 75,115 | 5,700 | 1,042,693 |
| Customer deposits | 1,303,312 | 1,310,514 | 31,014 | 2,644,840 |
| Other liabilities | 97,206 | 24,330 | 189 | 121,725 |
| | 2,362,396 | 1,409,959 | 36,903 | 3,809,258 |
| Net on balance sheet financial position | 540,874 | (97,191) | 4,264 | 447,947 |
| Contingent liabilities | 884,552 | 860,521 | 234,722 | 1,979,795 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

| As at 31 December 2009 | KD 000's | | | |
|------------------------|-------------------------------|-------------|------------------|------------|
| | 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 |

| 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 |

C) Equity price risk

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

KD 000's

| | Impact on statement of income | | Impact on equity | |
|------------------------|-------------------------------|--------|------------------|--------|
| | ± @ 1% | ± @ 2% | ± @ 1% | ± @ 2% |
| As at 31 December 2009 | | | | |
| Kuwait Stock Exchange | 63 | 126 | 1,256 | 2,512 |
| As at 31 December 2008 | | | | |
| Kuwait Stock Exchange | 75 | 150 | 309 | 618 |

(iii) LIQUIDITY RISK

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

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

KD 000's

| As at 31 December 2009 | Up to 1 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 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

KD 000's

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

KD 000's

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

LIABILITIES

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(B) Contractual expiry by maturity

KD 000's

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

(C) Contractual undiscounted repayment obligations by maturity

KD 000's

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

KD 000's

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

27- OPERATIONAL RISK

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

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

28- SEGMENTAL ANALYSIS

The Group operates in banking brokerage services and investment banking activities, which is segmented between:

- (a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers
- (b) Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds, asset management and brokerage services

| | KD 000's | | | | | |
|---------------------------------|-------------------------------|-----------|----------------------------------|-----------|-----------|-----------|
| | Corporate & Retail Banking | | Treasury & Investment Banking | | Total | |
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Interest income | 141,548 | 197,936 | 32,151 | 59,233 | 173,669 | 257,169 |
| Non interest income | 24,669 | 30,784 | 28,585 | 50,636 | 53,254 | 81,420 |
| Total revenues | 166,217 | 228,720 | 60,736 | 109,869 | 226,953 | 338,589 |
| Impairment and other provisions | (100,738) | (55,742) | (30,076) | (1,947) | (130,814) | (57,689) |
| Net profit/(loss) for the year | 9,389 | 67,406 | (9,237) | 33,324 | 152 | 100,730 |
| Assets | 2,497,587 | 2,598,483 | 1,097,710 | 1,708,168 | 3,595,297 | 4,306,651 |
| Liabilities & Equity | 1,061,606 | 983,232 | 2,533,691 | 3,323,419 | 3,595,297 | 4,306,651 |

29- OFF BALANCE SHEET ITEMS

- (a) Financial instruments with contractual amounts

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

(b) Fiduciary assets

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

(c) Legal claims

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

30- CAPITAL ADEQUACY

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

31- COMPARATIVE FIGURES

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

