

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 DECEMBER 2009

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

I- Subsidiaries and significant investments

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

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

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

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

II- Capital structure

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

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

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

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



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III- Capital adequacy

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

A) Capital requirement

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

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

B) Capital ratios

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

IV- Risk Management

(a) Risk Governance

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

The risk management framework includes a hierarchy of committees involving the Board of Directors and the executive management for approval and reporting purposes. The Board of Directors through its committees has the overall authority for approval of strategies and policies. The Board Loan Committee (BLC) is the apex credit approving authority of the Bank which is mainly responsible for approving all credit



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proposals beyond the authority level of the management and also for reviewing and approving the credit policy and amendments thereof. The Board Executive Committee (BEC) is the apex authority of the Bank for approving investments and other executive matters beyond the authority of the management. These include approval of bankwide strategies as well as specific policies pertaining to risk management.

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

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

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

(b) Credit Risk

Credit risk is monitored through a system of independent credit appraisals, macro analysis of the credit portfolio, grading of counterparties and monitoring of concentration

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limits. Independent credit appraisals cover detailed review of credit proposals prior to approval in order to provide an objective credit evaluation of the inherent credit risks to assist the approving authorities in making their credit decisions. In addition, comprehensive reviews at the individual and portfolio levels are undertaken after approval to effectively monitor / control the existing credit portfolio.

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

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

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

(c) Market Risk

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



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

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

(d) Liquidity Risk

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

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

Further, the Bank's liquidity policy requires that proper liquidity planning is periodically conducted and that stress tests are performed based on scenario analyses. A detailed

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contingency plan also forms part of the liquidity management framework. Detailed methodology for calculation of capital for liquidity risk under pillar two has been introduced.

(e).Interest Rate Risk

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

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

(f). Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, systems and people or from external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws, contractual obligations and lack of due diligence in the formulation of documents and contracts. It also includes the exposure to litigation from all aspects of the Bank's activities. The definition does not include strategic or reputational risks

Operational risk management is focused on minimizing risk events that arise through inadequate processes, human error, system as well as external factors by using a range of assessment methods including control self assessments and workshops, and through review of bankwide procedures. An objective scorecard has been introduced that assesses various operational risk areas based on pre-defined parameters and grades them under certain categories. Insurance management which is integrated into this system facilitates prudent transfer of risks. Internally maintained loss data, consolidated principally from incidence reporting channels, provides information on frequency and impact of operational risk events. A bankwide disaster recovery plan is prepared to tackle any unforeseen contingencies and aims to ensure that business continuity is achieved with minimal disruption to critical processes and systems.



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

(g). Other Risks

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

V Credit exposures

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

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

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

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

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

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



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(a) Gross credit exposures

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

(b) Average gross credit exposures

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

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(c) Total credit exposures by geographic sector

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

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



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(d) Funded credit exposures by geographic sector

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

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

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(e) Unfunded credit exposures by geographic sector

KD 000's

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

KD 000's

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



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(f) Total credit exposures by residual maturity

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

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

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(g) Funded credit exposures by residual maturity

As at 31 December 2009	KD 000's					Total
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	
1. Cash items	35,144	-	-	-	-	35,144
2. Claims on sovereigns	149,704	100,258	88,557	62,606	5,342	406,467
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	314,451	88,860	15,864	12,917	1,392	433,484
7. Claims on corporates	79,389	155,054	134,409	180,524	170,574	719,950
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	616	2,350	4,796	5,275	411,194	424,231
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	227,043	29,718	-	-	28	256,789
12. Other assets	345,800	478,987	146,514	75,488	322,772	1,369,561
	1,152,147	855,227	390,140	336,810	911,302	3,645,626
Percentage of funded credit exposures by residual maturity	31.6%	23.5%	10.7%	9.2%	25.0%	100.0%

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



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(h) Unfunded credit exposures by residual maturity

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

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

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(i) Impaired loans by standard portfolio

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

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

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



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(k) Impaired loans and provisions by geographic sector

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

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

(l) Movement in provisions

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

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(m) Credit exposures after CRM and CCF

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

VI- Credit risk mitigation

No netting, whether on-balance sheet or off-balance sheet, has been used for the capital adequacy computation process.

The credit policy of the Bank lays down guidelines for collateral valuation and management which includes, minimum coverage requirement for different categories of collateral, remargining, frequency and basis of revaluation, documentation, insurance, custodial requirements etc. According to the credit policy, the frequency of revaluing the collateral depends on the type of collateral. Specifically, daily revaluation is required for share collateral and also in cases where the collateral is in a different currency than the exposure. This process is handled by a department independent of the business divisions to ensure objectivity. An independent annual analysis is conducted by Risk Management Division to categorize the shares acceptable as collateral into different grades for the purpose of stipulating differential margin requirements.

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



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

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

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

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VII- Capital requirement for market risk

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

The capital requirement for market risk exposure is as follows:

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

VIII- Operational risk

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

IX- Equity position

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

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



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prior fair value adjustments earlier reported in other comprehensive are transferred to the statement of income.

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

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

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

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X- Interest rate risk in the banking book

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

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

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

