

FINANCIAL REVIEW

2008 STATEMENT OF INCOME

The net profit for the year of KD 100.7 million was KD 19.7 million or 16% lower than 2007.

Net interest income of KD 116.6 million was KD 27.4 million or 31% ahead of 2007, which had an extraordinary charge. Asset allocation continued to focus on higher yielding categories resulting in an increase in corporate lending and continued growth in higher margin consumer lending. The average yield on interest earning assets declined to 6.45% from 6.63% in 2007, with the Central Bank of Kuwait discount rate falling over the year from 6.25% to 3.75%. This coupled with a change in loan to deposit ratio requirements reduced competition for customer deposits and saw the average cost on interest bearing liabilities fall to 3.83%, down from the 4.42% of 2007. The Bank's net spread was 2.62% and the net interest margin was 2.92%.

Fees and commissions increased by KD 4.9 million or 18% driven by trade finance and retail product income. Dividend income of KD 5.8 million was down on 2007 following the sale of our holding in Bank of Bahrain & Kuwait. Net gains from investment securities of KD 34.6 million in 2008 are up on 2007 and include the gain on that sale.

Staff expenses increased KD 2.5 million or 15% on 2007 with staff numbers rising to 1,148. General and administration expenses increased with higher spending on premises and computer services.

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

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. Total provision cover for 2008, including general provisions, was 143% of non-performing loans. Non-performing loans rose KD 14.7 million or 12% to KD 137.5 million. Post liberation non-performing loans were KD 9.7 million or 28% higher while pre invasion non-performing loans increased KD 5.0 million or 6% due to movement in foreign currency exchange rates. Pre invasion provisions are booked in the currency of the non-performing loan and increased KD 5.0 million in line with the underlying assets. Including the general provisions, total post liberation non-performing loan provision coverage is 235% for 2008.

2008 Balance Sheet

Total assets increased by KD 17.3 million or 0.4% on 2007; with growth driven by loans and advances, net of provisions increasing by KD 216.2 million or 10% and customer deposits increased by KD 9.0 million or 0.3% over 2007.

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

The capital adequacy ratio under Basel II regulations is 15.54% and comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

Dividends And Proposed Appropriations

The net profit of KD 100.7 million will be allocated as follows:

1. KD 50.9 million to the dividend account for the distribution of a 40 fils cash dividend. (2007: 85 fils) as recommended by the Board of Directors. This is subject to approval by the Shareholders at the Annual General Meeting.
2. KD 3.0 million to the Statutory Reserve, which now equals 50% of share capital and in accordance with the Law of Commercial Companies any future transfers are on a voluntary basis.