BOARD OF DIRECTORS

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Chairman & Managing Director

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Secretary to the Board and GM Investments

Al-Tijari ………… My Choice

Commercial Bank of Kuwait works under a well-defined business strategy that aims at providing customers with state-of-the-art banking products and services. Through a professional teamwork committed to studying the local market's requirements to cater for our customers' needs, we strive to become the bank of first choice for all customer segments, while maintaining the core principles of our corporate social responsibility by supporting and offering contributions to various social activities.

CHAIRMAN AND MANAGING DIRECTOR'S MESSAGE

Our valued Shareholders, at the outset I would like to extend our deepest thanks for your continuous support to the Bank and on behalf of the Board of Directors', I am pleased to present a brief summary of Commercial Bank of Kuwait's performance and the major achievements of the Bank during 2008.

COMMERCIAL BANK OF KUWAIT – SUPERIOR PERFORMANCE EVEN IN TOUGH TIMES

The world economy, mired in a severe financial crisis, moved into a challenging arena in the last quarter of 2008 which saw a number of financial and economic developments that negatively affected banking business. However, the Bank's financial results and profits are excellent given such turbulent economic conditions and the challenging environment for financial institutions and reflect the prudent and conservative strategy the Bank has followed in recent years.

The Bank's net profit was KD 100.7 million with earnings per share of 80.6 fils.

The Board of Directors propose the payment of a cash dividend of 40% of the nominal share capital (40 fils).

OPERATING INCOME IS 22% AHEAD OF LAST YEAR

The financial results of the Bank show an increase for 2008 operating income to KD 198 million which is 22% ahead of 2007. **The profit before provisions rose to KD 163 million or 24% ahead of the corresponding year** with interest income up 16% and fees and commissions up 18%. Expenses rose by only 13% leading to a very efficient cost to income ratio of 17.58%.

Loans and advances increased by 10% or of KD 216 million through selective lending, mainly to corporate clients. The Bank actively manages asset quality, with post liberation non-performing loans of KD 44.1 million, only 1.7% of the post liberation loan portfolio, with provision coverage of 235%.

ADDITIONAL VOLUNTARY PROVISIONS

During 2008, the Bank made provisions for possible impairment of KD 57.7 million against the loan and investment portfolios. Included in these provisions, even though asset quality is excellent, the Bank has voluntarily and conservatively taken KD 25.6million of additional general loan provisions over and above the regulatory requirements as a precautionary measure.

At the year end, the Bank has a total of KD 197 million of loan provisions with KD 109.9 million of specific provisions and KD 87.1 million of general provisions. Included in the general provision is KD 51.6 million that the Bank has accumulated over and above regulatory requirements. The Bank has built this prudent cushion over the years against any future impact of the global financial crisis as there are difficult times ahead with it not easy to predict the future effects of the global financial crisis on the Kuwait economy. Additionally, these extra provisions will help the Bank to do business activities safely and hedge against the fallouts of any such financial meltdown.

RETAINED EARNINGS INCREASED TO KD 92 MILLION

In addition to the extra general provisions, the Bank has transferred approximately KD 47 million to the retained earnings account which totals KD 92 million at 2008. This further enhances shareholders' funds and will allow the Bank to continue distributing cash dividends in the coming years.

OUR FINANCIAL PERFORMANCE'S INDICATORS RANK THE BANK AMONG THE TOP WORLD AND LOCAL FINANCIAL INSTITUTIONS

Total assets were KD 4.3 billion and total shareholders' funds were KD 497 million as at the end of 2008. With a return on average assets of 2.34% and a return on average equity of 23.15%, the Bank continues to produce excellent returns that are above local and international standards. The Bank also has a strong capital base with a capital adequacy ratio of 15.54%, which comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

REVIEW OF 2008

The Bank continues to invest in its branch network, IT systems and its people. With 54 conveniently located branches, Commercial Bank continues to operate the second largest branch network in Kuwait. During 2008 the Bank opened three branches in Dahiyat Abdulla Mubarak, Al Sour Street and Fahed Al Salem Street. New locations have been secured for further branches to be opened in 2009. With the second largest branch network in Kuwait Commercial Bank provides state-of-the-art banking products and services specifically tailored to cater for all customers' needs.

Corporate Banking Division continued to expand its portfolio of credit facilities particularly in the productive & dynamic economic sectors. The Division was active in providing the required funds to some investment companies. By the end of 2008, the loan portfolio was KD 2.4 billion prudently allocated to all economic sectors.

The Bank continued in 2008, to diversify its income sources and completed the acquisition of Union Securities Brokerage Company with the objective of strengthening the Bank's brokerage activities and product offerings in the local market, in addition to providing more distinctive and unique services for CBK clients. Our investment subsidiary Al Tijari Investment Co. has started operations as CBK Capital has been actively advising certain major Kuwait financial institutions on their debt rescheduling and restructuring.

Tijari Private Banking continues to gain new high net worth clients and extend their range of wealth management tools as a part of Tijari Global Investment Solutions.

Treasury continues to fulfil corporate client's basic cash management and foreign exchange requirements efficiently and effectively by improving technical methods to assist in offering the best services to customers.

International Banking Division was active during the first half of 2008 and continues to support the Bank's regional expansion strategy. With a view to safeguard and protect the Bank from the negative effects of the financial crisis that hit several financial institutions, the Division decided to suspend certain banking relationships with a number of international banks and this helped in mitigating the Bank's risk exposures on these international institutions. The Division continues to study and consider potential acquisitions and rewarding expansion opportunities that meet the Bank's strategic criteria.

The Operations group continues to support the Business groups. Trade Services now provides advice to customers, particularly with regard to the changes in rules governing international trade.

The Information Technology group saw the implementation of EMV compliant debit and credit cards along with the introduction of an EMV compliant ATM switch.

OUR TEAM

Banking is about relationships and our ability to expand and grow depends largely on our people. The Bank exerts all effort to attract, train, motivate and retain skilled and experienced people. As a preferred employer for Kuwaiti graduates, Commercial Bank continues its efforts in offering excellent job opportunities to fresh graduates. During 2008 the Bank recruited 170 Kuwaitis that brought up the percentage of Kuwaiti manpower to over 50% of the Bank's total manpower, thereby exceeding the Governments Kuwaitisation regulations.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social responsibility has been one of the Bank's priorities since its establishment in 1960. From this starting point, the Bank has followed a balanced strategy of devoting its efforts and resources to serve society, participating in its development, providing employment and training opportunities for Kuwaitis and protecting the environment to preserve Kuwait's natural resources.

A clear demonstration of this is through the Bank's generous donations to social care centres and its contributions to social activities, awareness campaigns, educational and cultural events and sports activities. The Bank is a prominent participator and promoter of conferences and seminars organized in Kuwait and abroad, usually presenting research papers on the issues and topics discussed in the conference

OUR VALUED SHAREHOLDERS

The global economic downturn has affected Kuwait, we see the need for prudent, conservative banking, assisting our customers to weather the storm and protecting shareholder value.

The Bank has a clear mission statement, to demonstrate excellence in all fields, including leadership, innovation, commitment and corporate citizenship. We will keep true to these principles and continue to prosper.

APPRECIATION

In conclusion, and on behalf of the Board of Directors, we wish to express our sincere gratitude and appreciation to His Highness the Amir, His Highness the Crown Prince and His Highness the Prime Minister, and to members of the Council of Ministers and National Assembly for their wise management of the nation's economic policies.

We would also like to extend our thanks to Central Bank of Kuwait, the Ministry of Finance, the Ministry of Commerce and Industry, the Chamber of Commerce and Industry and all other regulatory agencies for their continuous support to the banking sector in Kuwait.

The Board of Directors would also like to thank our valued shareholders for their confidence and continued support of Commercial Bank of Kuwait. We would also like to thank our customers for their trust and confidence in our services, and we assure them of our commitment to excellence in all fields.

Finally, we would like to thank our CGM & CEO Mr. Jamal Al-Mutawa, the senior management team and our employees who remain focussed on achieving the Bank's strategic objectives through their professionalism, dedication, energy and commitment to our goals of excellence. Their tireless efforts, innovation and teamwork to deliver the best service and value to customers are the bedrock of the Bank's success. We have great confidence in our senior management team to provide the leadership required to sustain this remarkable record of achievements and to rise to the challenges of the future.

Abdul Majeed Haji Al Shatti
Chairman & Managing Director

RETAIL BANKING DIVISION

Superior Banking Services

Retail Banking Division (RBD) continues to play a significant role in providing distinctive banking services to our customers. During 2008, a number of structural and administrative changes were introduced to the Division which contributed towards optimizing our performance and streamlining the workflow. The Division is effective within the Bank's general strategy which aims at offering the best banking services and products to customers. RBD achieved remarkable results in 2008 thanks to the consolidated efforts of all the branches' employees and the Division's management in bringing innovative banking services to the public, and in continuing to expand the Bank's customer base.

Retail Banking Division continued its conservative policy in offering new installment loans in accordance with the instructions and controls recently issued by the Central Bank of Kuwait. The Division continues to offer various deposit and account product offerings which cater for all customers' segments and meet their requirements.

Expansion of the Branch Network

Within the Bank's expansion strategy, Retail Banking Division expanded its branch network across Kuwait keeping its services easily accessible to all customers. During the year, the Division opened three new branches - Fahd Al Salem Street, Al Sour Street and Abdulla Al Mubarak District - bringing the total number of branches to 54. Notably, the Bank operates the second largest local branch network in Kuwait. The Division has improved the interior layout and exterior architecture in a number of branches in line with the contemporary brand standards. The Bank continue to enhance and develop its retail product offerings to cater for all customers' needs with its Lead Account, My First Account and other deposit offerings witnessing some enhancement during the year. Communication channels with customers continue to be updated and upgraded through the Bank's website, www.cbk-online.com.

Proactive Interaction with Customers

RBD constantly evaluates its participation in, and the success of, diverse activities and promotional campaigns used in marketing of its products. The Division continues to coordinate with the Bank's Advertising and Public Relations Department in a number of activities and festivals with the aim of bringing the Bank to the heart of the community.

Customer Service is our Top Priority

Maintaining the Bank's reputation for the highest level of customer support, Retail Banking Division continues to attract the very best new recruits and to train them with a view to further optimizing their skills. All members of our staff are trained to a high degree with the objective of enhancing their potential to serve our customers better. The Division's management initiated dialogue with a view to present a new customer service manual offering guidance on how best our staff can provide solutions for customers.

CARD CENTER

In view of the Bank's constant pursuit of secure banking transactions conducted by customers via ATM Cards and Credit Cards, the Bank progressively replaced the magnetic cards by the chip-embedded cards.

Furthermore, the Division is working on improving and developing SMS Service to enable customers to be notified of their outstanding credit card obligations, credit cards' payments due and their credit cards' purchases and withdrawals. Shortly the Bank will launch an Immediate Payment Service for credit card dues through all the available channels including CBK branches, the Bank's web site, our Call Center and ATMs.

CBK DISCOUNT PROGRAM

In order to provide further state-of-the-art services and unique privileges for credit card holders, CBK has entered into agreements with a diverse range of restaurants, hotels, stores and entertainment venues in Kuwait with a view to offering customers an increasing number of valuable discounts on their purchases paid for by using CBK credit cards.

Commercial Bank of Kuwait has recently expanded its ATM network through a number of ATM Vehicles deployed in the areas which lack this service. Further, CBK endeavored, through a dedicated work team, to make these vehicles available in the popular locations and occasions.

Retail Banking Division will continue its earnest efforts towards introducing further improvements to customer services in order to achieve complete customer satisfaction.

CORPORATE CREDIT DIVISION

2008 will be remembered as a year of global financial crisis which has seriously affected markets everywhere - including Kuwait. This crisis had an negative effect on all sectors of the world economy. GCC stock markets, in common with global markets, have been in free-fall, particularly after September 2008.

Investment companies in Kuwait were the first to be hit as they saw the values of their investment plummet, resulting in access to new funds from banks drying up. This has had a severe impact on some of the major financial institutions, and raised questions on their ability to continue to operate. The worldwide recession and a continuous slide in oil prices, nearing the US$ 30 a barrel mark, are expected to combine and leave their marks on the Kuwaiti market.

We foresee an ongoing recessionary trend and a difficult economic environment for 2009 during which the bank will continue to consolidate.

For most of the earlier part of 2008, the Bank continued to cautiously expand on the back of increased government and private sector spending which was fuelled by continuing high oil prices and an unprecedented government budget surplus.

With its developed team of creative and motivated professionals, Corporate Credits Division placed a special emphasis on providing uniquely pro-active personal attention to its clients in a highly competitive environment. This special attention distinguished CBK from its rivals and resulted in a well balanced growth in all business lines providing diversified revenue sources and superior returns to shareholders.

One of our major achievements in 2008 has been to successfully finance, on a fully underwritten basis, the US$1 Billion Al-Zour South Gas Turbine Emergency Power Plant, this is in addition to other well known construction projects in Kuwait including the new headquarters of the Central Bank of Kuwait.

INTERNATIONAL BANKING DIVISION

CBK's reach in international markets allows us to support our customers and shareholders in a number of key ways. These include maintaining a broad base of relationships with foreign banks, and by taking proprietary positions and investing prudently in a portfolio mostly related to trade that maximizes the bank's fee income. Superior performance is achieved through participation in loan syndications and trade related risk participations. These utilize our extensive network of international correspondent banks that are active in these types of trade related transactions.

The year was a challenging one for CBK, but the International Banking Division (IBD) was able to remain profitable. Due to IBD's conservative credit choices, we were successful in avoiding exposure to markets and banks that experienced difficulties in 2008. Throughout this period, income was mainly derived from unfunded risk participation, in addition to funded business in selected markets.

TREASURY

Despite having witnessed financial meltdown in the banking arena across the globe in 2008, the result of a number of bank failures and of a decline in stocks and commodity prices worldwide, Treasury played a distinct role in maintaining the bank's high tempo of growth. The volume of business activity was rather lower during the second half of 2008 due to economic slowdown, yet Treasury continued to retain its leadership status, both in the Dollar/KWD foreign exchange market, as well as in the Kuwaiti Dinar money market. Moreover, Treasury traded actively across all major currencies in the foreign exchange market - proprietary as well as customer driven.

In the year 2008, banking relationships were greatly focused on corporate clients who stand as strong pillars for the bank's expansion. It remained our constant endeavour to focus on requirements of our customers, and to strive to leverage with improved technology to provide highest levels of service to the banking community. Treasury also developed a business relationship with major banks around the globe that has helped to achieve large credit lines as a further diversification of funding source. Treasury continues to work ceaselessly to become the preferred provider of banking services that target retail as well as wholesale customer segments.

Treasury's key success is built on the latest technology, and sound ethical practices combined with efficiency and effectiveness.

Besides, it is also to be noted that despite having obtained Central Bank's approval to commence Derivative trading activities, Treasury has opted to adopt a rather conservative approach on the subject issue. Currently, the program is kept in abeyance, though ready for launch at the appropriate time.

INVESTMENT DEPARTMENT

2008 – A challenging year: In a year that witnessed unprecedented turmoil in global financial markets, a year in which almost all investment strategies and asset classes crumbled and registered their worst returns in decades, Investment Department still managed to register decent gains. These gains were realized from sale of investments in different asset classes.

Dividend income and Fees from Fund Management activities also contributed to the bottom line.

Proprietary Investments: Investment Department is responsible for managing a portfolio of diversified and non-correlated assets for the Bank's proprietary books.

All investment activities of the Bank are carried out by a team of mainly Kuwaiti professionals. Investment guidelines laid down by the Central Bank of Kuwait are strictly adhered to and form the basis of the Bank's investment policy.

Asset Management

Asset management activities of Investment department commenced in 2002. Currently, six Funds are offered under the "Tijari Funds" umbrella. Two of the six Funds are fully Sharia compliant. These Funds cover a wide range of geographies and market sectors. Similar to all investment activities that were negatively affected by the global financial crisis, the performance of Tijari funds was affected by the crisis. The Funds currently managed by the Bank are:

- **Tijari Investment Fund:** Was launched in May 2002 and invests in quality stocks of Kuwait companies listed on the Kuwait Stock Exchange.

- **Tijari Money Market Fund:** One of the best performing among its peer group, this well diversified Fund, launched in September 2002 offers investors an alternative to deposits whilst providing a high degree of security and easier liquidity.

- **Tijari GCC Equity Fund:** Was launched during the December 2005 and invests mainly in the large cap and high growth quality stocks of the GCC region.

- **Tijari Islamic Fund:** The Fund invests in the Sharia compliant companies listed on the Kuwait Stock Exchange. The Fund was launched in July 2006 and is conservatively managed.

- **Tijari India Fund:** This “Fund of Funds” which was launched during January 2007, invests in Indian equity markets.
- **Tijari Islamic Money Market Fund:** Launched during December 2007, this Sharia compliant Fund invests mainly in Islamic money market Funds and in Islamic debt instruments.

DIVERSIFIED INCOME RESOURCES

Union Securities Brokerage Company

Investment Department played a key role in the Bank's acquiring majority ownership of Union Securities Brokerage Company (USBS).

USBC was incorporated in December 1984 as a closed Kuwaiti shareholding company. It is one of the only 14 licensed brokerage companies operating in Kuwait.

USBC's main business activity is executing orders for listed equities on Kuwait Stock Exchange. It carries out its brokerage activities from its main office located in the Kuwait Stock Exchange Building and from four other offices in Kuwait.

CBK Capital

During the first half of the year, CBK Capital, the fully owned subsidiary of the Bank, was formed with the paid up capital of KD 15 million. The formation of CBK Capital is the result of lengthy and extensive feasibility study and intensive interaction with the Regulators. Investment Department had a major role in the formation of CBK Capital.

CBK Capital will initially focus on the GCC and MENA region and plans to provide investment banking products and solution to institutional and high net worth individuals alike.

TIJARI PRIVATE BANKING (TPB)

Our mission is to become the trusted partner of our valued clients by providing them with value added banking and investment solutions through out all life stages, by a team of highly experienced professionals with proven credidability and remarkable trac record.

Established in 2006, Tijari Private Banking continues its efforts to distinguish CBK high net worth individuals through outstanding personalized service, and remains constantly alive to each client's unique circumstances and requirements.

At Tijari Private Banking we place great emphasis on the building of long term multi-generational relationships. We maintain a high level personal and confidential business environment, and through this our relationships are bulit on well-grounded and mutual trust. Our clients entrust their assests to us. In return we make ensure we offer them the reassurance of dealing with one of Kuwait's leading Banks and constantly demonstrate that their assets are always in the safest of hands.
At Tijari Private Banking, we truly understand the value of time, therefore we gear all our resources to provide clients with the most comfortable and convinient banking and investment experience. Added to this we offer total confidentiality, trust and a high degree of personal attention.

We have created a state-of-the-art Private Banking Center exclusively for our Private Banking Clients. Staffed by highly trained relationship professionals who are always at our client's service, and ensuring that all our products and services you are presented in an appropriate environment. In this regards, we are constantly developing new ideas and solutions to add value to the relationship we hold with our clients and endeavour to protect their wealth across generations.

Our products and services are unique and tailored to suit each client's personal needs. We create, innovate and update all our products and services in order to establish, build and maintain a solid investment solutions platform.

RISK MANAGEMENT DIVISION

The continued importance assigned to prudential risk management at all levels of the Bank has ensured that it has remained largely immune to external financial shocks. The Bank's governance structure places primary responsibility for risk and control upon the risk taking units. The Risk Management Division is responsible for maintaining prudential oversight towards the risk taking activities of the Bank.

Risk management, which follows an enterprise wide approach, is based on a complementary set of policies that govern credit risk, market risk, operational risk, interest rate risk, liquidity risk and information security risk. The policies, in general, describe the roles and responsibilities of various internal stakeholders, establish insightful and proactive planning for various risks, determine the appropriate levels of risk appetite and, lay down mechanism for measurement, reporting and escalation of risks and exceptions. The implementation of policy requirements is facilitated by appropriately qualified and competent risk professionals as well as systems and solutions. The Bank's risk management framework lays significant emphasis on analyzing and understanding the underlying risks before undertaking new transactions, and changing or implementing new processes and systems. This enables exhaustive assessment of all risks and ensures that the transactions and processes conform with the Bank's risk appetite and regulatory requirements. This is achieved through a combination of a governance structure which includes a multi-tiered approval ladder for transactions and processes, and independent reviews to analyze risks and which assist the decision makers.

Risk management also relies extensively on independent monitoring of the Bank's existing transactions and processes. This enables proactive identification of potential weaknesses in credit and investment portfolios as well as inherent operational risks in the Bank's continuing operations. This mechanism is aided by annual reviews of transactions, regular reviews of portfolios with credit and market risk elements, control self assessments, and monitoring of key risk indicators.

Quantification of risk enables objective measurement of underlying risks. An internally developed risk grading mechanism, which is regularly back-tested, is in place for numerical assessment of risks for commercial transactions that form the bulk of the Bank's lending portfolio. Internal tools are in place for regular measurement of Value at Risk (VaR) - for the market risk exposures - and Earnings at Risk (EaR) - for interest rate risk - in the banking book. The regulatory capital measurement, which is based on the standardized approach of Basel II, enables a bank-wide assessment of capital required to support the Bank's operations and also serves as a proxy for economic capital measurement.

INFORMATION TECHNOLOGY

In 2008 the bank embarked upon a series of improvements aimed at maintaining best practice in a number of key areas of information technology (IT). These areas were selected to provide security and assurance for the bank and our customers.

Included in this series was an integrated centralized disaster recovery system, as well as the provision for performance monitoring and management. A programme for the expansion of the utilization of RFIDs now also includes their use for IT fixed assets, and for VIP customer recognition.

Further enhancing and securing cashless banking, 2008 also saw the implementation of EMV compliant ATM switch, and the introduction of EMV debit and credit cards. A redesign of the

bank's network connectivity was successfully completed. This involved moving more than twenty of our branches to the must faster and more reliable direct fibre links. A central log repository now exists for all systems and devices, and ITD oversaw the replacement of firewalls allowing for more accurate trouble-shooting, system management, and control.
Amongst the structures currently being finalized are a new core banking system which also includes the revision and implementation of best practice processes, and a new funds transfer pricing system aimed at offering greater equality in sharing income generated by the bank's different business units.

The bank's forward-looking strategy continues to drive the need for constant assessment, change and improvements. At ITD we look forward to answering these challenges as we lead the bank smoothly through specific and targeted IT solutions.

OPERATIONS DIVISION

The Operations Division plays a key role in providing day-to-day support to other divisions engaged in supporting the Bank's customers in addition to working directly with those who are served by Operations Division. Throughout 2008, the Operations Division has been engaged in the introduction of new technology as well as delivering the day to day responsibilities to internal and external customers. The new technology being implemented will deliver greater efficiency and will benefit both our customers and our staff.

Central Processing

The Central Processing Department has already implemented a number of changes to streamline processing practices, taking advantage of the changes in technology mentioned above. An increasing proportion of the department's processing is now delivered using Straight Through Processing (STP). This trend will continue into 2009 as STP capability is expanded. Increasing use of STP techniques will benefit our customers as processing times are reduced and information is more easily available.

Trade Services

Trade Services Department (TSD) continues to provide an important value added service to clients who require Letters of Guarantee and Letters of Credit in the area of Trade Services. A close working relationship between the Trade Services Department and the main business areas of the bank ensures that a quick and efficient service is provided in delivering these services to support our clients in their business activities. TSD also takes pride in providing advice to clients, particularly in complex trade transactions, where we are able to advise the client as to the most appropriate solution and structure in order to protect their best interests. In some cases experts from the department have provided direct training to the bank's customers regarding changes in the rules governing international trade. During 2008 the department completed a significant link up with CBK's branch network allowing our customers to request guarantees conveniently at their branch. However the expertise and processing services are now provided by the TSD.

Treasury Operations

The Treasury Operations Department has maintained its support role for the bank's Treasury Division and Investment Department and, and in common with other departments within the Operations Division, has been managing its day to day responsibilities while embracing new technology related changes.

Credit Administration and Programme Management

During 2008, the Credit Administration Department has been investing heavily in preparation for the new technology changes which are planned to be launched towards the end of 2008 and in early 2009. These changes will result in significant advancement in the way the department manages its responsibilities.

The Programme Management Office is at the forefront of implementing change, working with all areas of the bank, ensuring that these improvements are implemented in accordance with the management's plans.

Overall, 2008 has been a year of change, requiring bank personnel to embrace and learn new processes and procedures while maintaining a high level of service to our customers. Many staff members have willingly made considerable efforts and sacrifices to achieve this. We all look forward to an exciting year in 2009 as the improvement and change this new technology offers begins to show results for the benefit of our customers, shareholders and staff.

HUMAN RESOURCES DEPARTMENT

The Management of the Bank continues to recognize that the employees are its greatest asset. Realizing the need to have the best people creates a competitive organization, the Bank continues to keep its staff happy by rewarding performance and granting generous salary increases through annual appraisals and promotions.

Training Unit

For the enhanced performance of any organization, it is important that its human resources are kept abreast of new developments and possess the relevant skills. To realize this, our Training Unit proactively looks after employees' training needs to meet and exceed internationally recognized standards. One approach to achieve this is by investing in in-house training, utilizing the services of reputable training providers and making use of the Bank's state of the art training facilities.

The Training Unit continued to organize the new recruits training program for 137 new employees and has nominated 8 staff to attend the Credit Management program and 4 staff to attend the Bank Branch Management Program. The Training Unit was very active during the year where it has organized 80 in-house training courses, 42 courses at training providers in Kuwait, 28 courses abroad and 42 courses with the Institute of Banking Studies.

Recruitment Unit

Once again, the Recruitment Unit has achieved its set target in recruiting a good number of high caliber Kuwaiti candidates. With these attractions, it has allowed the Kuwaiti candidates a chance to fulfill their aspirations and to promote their ideas into a healthy professional environment that will make them into tomorrow's leaders and successors.

Recruitment Unit's presence in certain events such as the annual job fairs in Kuwait University, American University of Kuwait, Gulf University, Australian College & the Public Authority for Applied Education and Training, allowed us to achieve first place in the 'Kuwaitization process' and to surpass the percentage/quota set by the Government with 170 Kuwaiti staff recruited during the year. Our continued participation in the National Union of Kuwaiti Students (NUKS) annual conference in the USA gives us the opportunity to attract high caliber Kuwaiti graduates from universities in the United States. Our future mission for these young graduates is to give them intense on-the-job training in various aspects of banking which will allow them to develop their career path in becoming our second line future managers.

The Summer Program is another on-going process at HRD. One which offers children and relatives of our employees' or the opportunity to do field training during the summer.

INTERNAL AUDIT

With the turmoil of markets around the world, it is natural for depositors and investors to demand assurance from the institution in which they choose to invest that correct controls, and the adherence to lawful policies and regulations, are maintained. The Internal Auditing Department, along with other control bodies in the bank, plays the critical role in ensuring compliance in this regard

The Commercial Bank of Kuwait's Internal Audit Department, plays a significant role in helping to accomplish the Bank's objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of risk management and corporate governance. This is the result of providing independent and objective assurance, as well as providing consultations that add value to and improve the Bank's operations.

vIn order to achieve the above objectives, the department is equipped with a highly qualified and experienced staff team that is able to assist the Bank's board of directors and the management in the discharge of their duties and their compliance with laws, regulations, internal policies and procedures.

ANTI MONEY LAUNDERING UNIT

Money laundering continues to be a global concern and the Anti Money Laundering (AML) Unit, which reports directly to the Chairman and Managing Director, continues to monitor, investigate and report any suspicious transactions. The upgrade automated AML system now extends coverage to all SWIFT messages in addition to domestic transactions, and makes use of Central Bank of Kuwait, United Nations, U.S Treasury OFAC and internal blacklists to identify any suspicious and unusual transactions. The Anti Money Laundering Unit continues to comply with all regulatory requirements and ensures the implementation of best practise.

LEGAL DEPARTMENT

Legal Department plays a significant role in safeguarding the Bank's rights by rendering legal consultations through a professional team of legal advisors. Additionally, Legal Department arranges the legal relationship between the parties of any financing transaction and provides the documents and proceedings legally prescribed in this regard in a way that will guarantee swift, easy and legal formation of a credit relationship between the Bank and the borrowers. Further, Legal Department renders the legal advice on all the Bank's activities.

The Legal Department has an important role co-coordinating with all the other departments to provide legal services, support and advice, in addition to the drafting and preparing all types of contracts and agreements as required by the business functions.

The Legal Department represents the Bank before courts and public prosecution to safeguard the Bank, its shareholders and employees rights.

CPM DEPARTMENT

Under the direction of the Department Head and in line with the Bank's ambitious expansion strategy, the Construction and Property Management Department (CPM) has undertaken and successfully completed the construction of a new stand-alone branch at Dahiyat Abdulla Mubarak, which opened in October 2008. Other projects successfully completed this year include new branches at Farwaniya, the Vegetable Market, Salmiya, Fahad Al Salem, Al Soor and Hawally Tunis Street, with Dasma and Jahra nearing the completion stage.

Construction of two additional Branches, at Hadiya and Al Jleeb, are currently under process with others to follow, adding to the large branch network spread over Kuwait.

In addition, the CPM also provides timely and efficient maintenance services to both internal and external customers.

ADVERTISING & PUBLIC RELATIONS DEPARTMENT

The Caring Face of Commercial Bank of Kuwait

Our Advertising and Public Relations Department continues to play a key role in reinforcing the Bank's corporate image.. As one of Kuwait's leading financial institutions, CBK embraces every opportunity to demonstrate our commitment towards social responsibility, as well as supporting a revival of interest in Kuwait's heritage as an integral part of all other social, humanitarian and cultural activities.

During 2008, CBK offered patronage to Bait Lothan by sponsoring their full season of exhibitions and photography related activities. Further, CBK patronized Kuwait Real Estate & Investment Exhibition and the 1st GCC Sports Championship for Women.

Commercial Bank of Kuwait is a caring Bank, as such we are proud of the key role we play in all our charitable activities. During 2008, the Bank undertook an initiative in offering financial contributions to the families of prisoners in Kuwait's Central Jail. This generous initiative aims to alleviate the sufferings of these families and help them during what is a difficult time. Further, CBK renovated the garden of the school for mentally handicapped girls. This project was completed as part of the Bank's endeavors to offer assistance to children with special needs. The Bank also participated in the Gergian party held during the Holy Month of Ramadan for sick children at Hussien Mekki Jumaa Hospital

Continuing its broad view across the community, CBK had a strong presence in seminars, conferences and forums recently held, prominent amongst which was its sponsorship of the Kuwait Public Relations Conference for the second consecutive year. Furthermore, CBK sponsored the 3rd Cultural Legal Week of the Kuwaiti Lawyers Association at the 3rd Legal Book Fair, as well as continuing its patronage for the activities of the 5th Arab Media Forum.
Commercial Bank of Kuwait extended its support to Kuwaiti organizations abroad through providing sponsorship to the National Union of Kuwaiti Students Conference in the United States. The conference was attended by the Bank's Chairman & Managing Director who participated in the economic forum by presenting a paper on the current economic conditions. The Bank was patron of the Employment Opportunities Exhibition held as part of the conference.

In another step that demonstrated the Bank's endeavors to strengthen and widen social relationships among staff members, CBK arranged the 5th Al-Tijari Hobbyists Exhibition. This has become an eagerly anticipated event in which the Bank's employees exhibit their innovative works.

CBK and Traditional Kuwaiti Heritage
Commercial Bank of Kuwait is committed to supporting a revival of traditional Kuwaiti heritage. We see the growth of interest in Kuwait's heritage very much as a complementary strand to our vision as a progressive and forward looking institution. As part of our support, CBK issued an annual calendar for 2009 which included twelve paintings that depicted scenes of the traditional Kuwaiti heritage. Additionally Commercial Bank of Kuwait co-operated, for the third time, with the Ministry of Communications in issuing a set of stamps The stamps depicted images from Kuwait's heritage which were included in calendars previously issued by the Bank.

Our Advertising and Public Relations Department looks forward to continuing these efforts, and more, all of which aim to further highlight the Bank's approach to all sporting, health, humanitarian and social activities.

CORPORATE GOVERNANCE

Framework for Governance

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

The Board of Commercial Bank of Kuwait has resolved that good faith, integrity, compliance, quality and respect must guide the conduct of directors, management and staff at all times when engaged in the Bank's business. These principles apply equally in dealings with customers, counterparties, regulatory authorities and business colleagues.

In order to apply these principles in a consistent manner, the Board has approved a formal Code of Conduct, which all employees receive on commencement of work with the Bank, including a requisite entry into a confidentiality undertaking.

The Corporate Governance framework for the Bank includes extensive operational policies and procedures, internal and external audit and compliance procedures, effective communications, transparent disclosure, accountability and measurement.

Background and Shareholders

Commercial Bank of Kuwait is a Public Shareholding Company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. The Bank is licensed and supervised as a commercial bank by the Central Bank of Kuwait.

The Board of Directors were aware of the following Shareholders with holdings in excess of 5% of the issued ordinary Share Capital as of 31st December 2008:

- **Al Sharq Holding 23.11%**

Key Committees

The following sets out in summary form the principal objectives and responsibilities of each Board committee.

The Board Executive Committee (BEC)

- Appointment of the CGM & CEO and those who report to him or her and the Chairman & MD
- Setting of objectives and policy frameworks including those related to Credit and Investment
- Formulation of overall banking and operating strategy
- Review and approval of action plans and implementation
- Review and approval of the annual budget
- Review and approval of internal control policies and supervision thereof

- Performance of quarterly reviews on the implementation of the action plan - amending where necessary
- Review of actual financial performance against budget
- Review and approval of marketing, organisational and administrative matters
- Review and approval of capital and project expenditure above the Chairman & MD's authority
- Review and approval of the Investment Policy, recommending to the Board of Directors any required amendments.
- Approval of certain investments in line with the Investment Policy
- Review of the Executive Management Team's quarterly performance report of the Investment Portfolio
- Approval of the asset class allocation of the Investment Portfolio
- Ensuring compliance with the Central Bank of Kuwait's investment instructions and regulations
- Delegation of the Executive Management Team to execute the disposal and acquisition transactions, participation in capital increases and approve the asset class allocation of the Investment Portfolio
- Submission of semi-annual performance reports of the Investment Portfolio to the Board of Directors

The Board Credit Committee (BCC)

- Review and approval of the Credit Policy and proposed amendments by the Credit Committee or Risk Management in accordance with the Central Bank of Kuwait's instructions
- Review and approval of Country Credit Limits for credit, investment and treasury
- Review and approval of foreign exchange control within the Central Bank of Kuwait's limits
- Review and approval of bank counterparty limits
- Review and approval of new and renewed credit facilities based on the Credit Committees recommendations and within Central Bank of Kuwait's limits
- Review and approval of fund returns, interest and fees reversal, off balance sheet transactions, write off of debts and the extension of credit limits as set out in the Credit Policy and within the Central Bank of Kuwait's instructions
- Review and approval of credit facilities offered to members of the Board of Directors ensuring compliance with the Central Bank of Kuwait's instructions.

The Board Audit Committee

- Ensure a climate of effective corporate governance and discipline within Commercial Bank of Kuwait
- Ensure the quality of financial reporting by reviewing the financial statements on behalf of the Board
- Oversee and support the internal audit function, giving it a greater degree of independence from management

• Provide a framework for the external auditors to assert their independence, whilst providing a communications channel through which to express issues of concern
• Selection of the Chief Internal Auditor
• Appoint External Auditors and designate budget and special audit assignment fees
• Review any resignations by or terminations of the External Auditors or the Chief Internal Auditor
• Review with the External Auditors the nature and scope of their audit and ensure proper coordination if more than one external audit office is involved

Board of Directors

In March 2006, the Shareholders elected Board Members for a term of three years:
• Abdul Majeed Haji Al Shatti
• Abdul Razzak Khaled Al Wazzan
• Abdul Fatah Mohammed Rafee Marafie
• Sadek Ibrahim Marafie
• Ahmad Mohammed Al-Mishari
• Fouad Ismail Dashti
• Khaled Ibrahim Al-Raqum

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.

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2008

	Note	2008 KD 000's	2007 KD 000's
ASSETS			
Cash and short term funds	3	319,709	370,024
Treasury and Central Bank bonds	4	251,811	207,645
Due from banks and other financial institutions	5	939,161	1,205,261
Loans and advances	6	2,430,381	2,214,221
Investment securities	7	130,492	240,985
Premises and equipment		30,784	27,648
Goodwill and intangible assets	8	18,662	-
Other assets	9	185,651	23,509
TOTAL ASSETS		**4,306,651**	**4,289,293**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions	10	1,042,693	1,009,496
Customer deposits	11	2,644,840	2,635,850
Subordinated loan		-	16,380
Other liabilities	12	121,725	100,551
Total liabilities		**3,809,258**	**3,762,277**
Equity			
Equity attributable to shareholders of Bank			
Share capital		127,202	121,145
Proposed bonus shares		-	6,057
Treasury shares		-	(7,223)
Reserves		226,805	260,131
Retained earnings		91,814	44,372
		445,821	424,482
Proposed dividend		50,881	102,534
		496,702	527,016
Minority Interest		691	-
Total Equity	13	**497,393**	**527,016**
TOTAL LIABILITIES AND EQUITY		**4,306,651**	**4,289,293**

These consolidated financial statements have been approved for issue by the Board of Directors on 9 February 2009 and signed on their behalf by:

Abdul Majeed Haji Al Shatti
Chairman & Managing Director

Jamal Abdul Hameed Al Mutawa
Chief General Manager & CEO

The attached Notes 1 to 29 form part of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF COMMERCIAL BANK OF KUWAIT K.S.C

We have audited the accompanying consolidated financial statement of Commercial Bank of Kuwait S.A.K ('the Bank') and subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and of its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on other Legal and Regulatory Requirements.

Furthermore, in our opinion proper books of accounts have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statement, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations Issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, or of the Articles of Association that an Inventory was duly carried out and that, to the best of our knowledge and belief, no violation of Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 1005, Commercial Companies Law of 1960. as amended, or of the Article of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our examination, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended 31 December 2008

Ali Mohammad Al Hamad
License No. 111-A
PricewaterhouseCoopers.

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

9 February 2009
Kuwait.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED 31 DECEMBER 2008

	Note	2008 KD 000's	2007 KD 000's
Interest income	14	257,169	222,330
Interest expense	15	(140,601)	(133,139)
NET INTEREST INCOME		**116,568**	**89,191**
Fees and commissions		31,551	26,603
Fund management fees		2,097	2,147
Dividend income		5,824	8,467
Net gain from dealing in foreign currencies		5,909	9,435
Net gain from investment securities	16	34,642	25,658
Other operating income	17	1,397	810
OPERATING INCOME		**197,988**	**162,311**
Staff		(18,642)	(16,132)
General and administration		(13,266)	(12,655)
Depreciation		(2,889)	(2,007)
OPERATING EXPENSES		**(34,797)**	**(30,794)**
PROFIT BEFORE PROVISIONS		163,191	131,517
Impairment and other provisions	18	(57,689)	(6,677)
PROFIT FROM OPERATIONS		**105,502**	**124,840**
Taxes and contributions	19	(4,554)	(4,266)
Directors' fees		(218)	(218)
NET PROFIT FOR THE YEAR		**100,730**	**120,356**
Attributable to:			
Shareholders of the Bank		100,655	120,356
Minority interest		75	-
		100,730	120,356
Earnings per share attributable to shareholders of the Bank (fils)	20	**80.6**	**95.1**

The attached Notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2008

KD 000's
Attributable to shareholders of the Bank
Reserves

	Share Capital	Proposed Bonus Shares	Treasury Shares	Share Premium	Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Fair Valuation Reserve	Retained Earnings	Proposed Dividend	Minority Interest	Total
Balance 31/12/2006	**115,376**	**5,769**	**(7,420)**	**66,791**	**57,688**	**17,927**	**48,297**	**19,344**	**38,883**	**35,981**	**85,955**	**-**	**484,591**
Changes in fair value	-	-	-	-	-	-	-	-	17,011	-	-	-	17,011
Gain on disposal of "Available for sale" investments	-	-	-	-	-	-	-	-	(16,210)	(269)	-	-	(16,479)
Property revaluation gain	-	-	-	-	-	-	-	3,571	-	-	-	-	3,571
Net income / (expense) directly Recognised in equity	-	-	-	-	-	-	-	3,571	801	(269)	-	-	4,103
Net profit for the year	-	-	-	-	-	-	-	-	-	120,356	-	-	120,356
Total income	-	-	-	-	-	-	-	3,571	801	120,087	-	-	124,459
Treasury shares purchased	-	-	(23,557)	-	-	-	-	-	-	-	-	-	(23,557)
Treasury shares sold	-	-	23,754	-	-	-	3,945		-	-	-	-	27,699
Bonus shares issued	5,769	(5,769)	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	2,884	-	-	-	-	(2,884)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	(221)	(85,955)	-	(86,176)
Proposed bonus shares	-	6,057	-	-	-	-	-	-	-	(6,057)	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	-	(102,534)	102,534	-	-
Balance 31/12/2007	**121,145**	**6,057**	**(7,223)**	**66,791**	**60,572**	**17,927**	**52,242**	**22,915**	**39,684**	**44,372**	**102,534**	**-**	**527,016**
Changes in fair value	-	-	-	-	-	-	-	-	(9,255)	-	-	-	(9,255)
Net Gain on disposal / impairment of "available for sale" investments	-	-	-	-	-	-	-	-	(22,882)	497	-	(165)	(22,550)
Property revaluation gain	-	-	-	-	-	-	-	2,421	-	-	-	-	2,421
Net income / (expense) directly recognised in equity	-	-	-	-	-	-	-	2,421	(32,137)	497	-	(165)	(29,384)
Net profit for the year	-	-	-	-	-	-	-	-	-	100,655	-	75	100,730
Total income	-	-	-	-	-	-	-	2,421	(32,137)	101,152	-	(90)	71,346
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	781	781
Treasury shares purchased	-	-	(102,167)	-	-	-	-	-	-	-	-	-	(102,167)
Treasury shares sold	-	-	109,390	-	-	-	(6,639)	-	-	-	-	-	102,751
Bonus shares issued	6,057	(6,057)	-	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	3,029	-	-	-	-	(3,029)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	200	(102,534)	-	(102,334)
Proposed dividend	-	-	-	-	-	-	-	-	-	(50,881)	50,881	-	-
Balance 31/12/2008	**127,202**	**-**	**-**	**66,791**	**63,601**	**17,927**	**45,603**	**25,336**	**7,547**	**91,814**	**50,881**	**691**	**497,393**

The attached Notes 1 to 29 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

YEAR ENDED 31 DECEMBER 2008

	Note	2008 KD 000's	2007 KD 000's
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operations		**105,502**	**124,840**
Adjustments for:			
Provisions for loans and advances		28,573	3,618
Income from investment securities		(40,466)	(34,125)
Foreign exchange and other losses on investment securities		211	43
Foreign exchange gain on financing activities		-	(968)
Depreciation		2,889	2,007
Other provisions and valuation adjustments		29,116	3,059
		125,825	**98,474**
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		(44,166)	(42,732)
Due from banks and other financial institutions		266,100	(667,692)
Loans and advances		(244,733)	(708,680)
Certificates of deposit		-	94,767
Government debt bond		-	5,250
Other assets		(161,157)	(12,918)
Due to banks and other financial institutions		33,197	440,405
Customer deposits		8,990	885,729
Other liabilities		14,148	17,030
Net cash (used in) from operating activities		**(1,796)**	**109,633**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		230,323	127,470
Acquisition of investment securities		(142,141)	(134,297)
Acquisition of a subsidiary	21	(20,900)	
Dividend income from investment securities		5,824	8,467
Proceeds from disposal of premises and equipment		(16)	94
Acquisition of premises and equipment		(3,479)	(2,201)
Net cash from (used in) investing activities		**69,611**	**(467)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term borrowings		-	(20,000)
Subordinated loan		(16,380)	-
Purchase of treasury shares		(102,167)	(23,557)
Sale of treasury shares		102,751	27,699
Dividend paid		(102,334)	(86,176)
Net cash used in financing activities		**(118,130)**	**(102,034)**
Net (decrease) / increase in cash and short term funds		(50,315)	7,132
Cash and short term funds at beginning of the year		370,024	362,892
Cash and short term funds at end of the year	3	**319,709**	**370,024**

The attached Notes 1 to 29 form part of these consolidated financial statements.

1- INCORPORATION AND REGISTRATION

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

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

2- SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

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

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

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

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

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

i) IFRS 8: Operating Segments, which will be effective for annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

ii) IAS 1: Presentation of Financial Statements (Revised), which will be effective for annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of information presented.

iii) IFRS 3: Business Combinations (Revised), which will be effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July, 2009 with prospective application, incorporates the following changes:

a) The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
b) Any contingent consideration will be measured at fair value, with subsequent changes therein recognized in the statement of income.
c) Transaction costs, other than share and debt issue costs, will be expensed as incurred.
d) Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in the statement of income.
e) Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

iv) IAS 27: Consolidated and Separate Financial Statements (Amended), which will be effective for annual periods beginning on or after 1 July, 2009 with retrospective application, requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the statement of income.

(b) Basis of consolidation

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

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

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

(c) Business combinations

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

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

(d) Cash and short term funds

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

(e) Financial instruments

i) Classification and measurement

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

At fair value through statement of income

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

Held to maturity

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

Loans and receivables

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

Available for sale

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

ii) Financial liabilities

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

iii) Recognition and de-recognition

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

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

iv) Derivative financial instruments and hedge accounting

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

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

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

If such derivative transactions, while providing effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under the specific rules of IAS 39, they are treated as derivatives held for trading. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet. The resultant gains and losses are included in the consolidated statement of income.

v) Financial guarantees

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

vi) Renegotiated loans

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

vii) Offsetting financial instruments

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

viii) Fair values

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

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

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

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

ix) Amortised cost

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

x) Impairment of financial assets

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

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

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

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

D) Installments of the loan have not been repaid on their respective due dates.

E) Deterioration of the borrower's guarantor's financial position

F) The borrower violates any of the agreed covenants, which may adversely affect the credit.

G) The borrower or guarantor is placed under liquidation or bankruptcy.

H) Evident facts indicate potential crystallization of the borrower's non-cash facility without timely reimbursement.

I) The borrower is in default in payment of any obligation to other banks or financial institutions.

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

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

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

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

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

The amount of impairment loss is measured for financial assets carried at amortised cost, such as loans and advances, as the difference between the asset's carrying amount and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the recovered asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of income in impairment charges for credit losses.

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

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

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

(f) Premises and equipment

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

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

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

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

(g) Goodwill and intangible assets

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

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

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

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

(h)Treasury shares

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

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

(i) Revenue recognition

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

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

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

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

(j) Foreign currencies

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

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

(k) Termination pay

The Group is liable under Kuwait Labour Law, to make payments to employees for post-employment benefits in respect of defined benefit plans. This liability is finally computed and fully settled at the end of an employee's service.

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

(l) Fiduciary assets

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

(m) Significant accounting judgments and estimates

Judgments

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

Classification of investments

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

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

Impairment of investments

The Group treats "available for sale" equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgment. The Group evaluates among other factors, normal volatility in the share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Impairment may be considered appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance; changes in technology; and operational and financing cash flows.

Estimation uncertainty

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

Impairment losses on loans and advances and investment in debt instruments

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

Valuation of unquoted equity investments

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

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

Impairment of goodwill

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

3- CASH AND SHORT TERM FUNDS

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

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

4- TREASURY AND CENTRAL BANK BONDS

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

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

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

5- DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Classification

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

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

(b) Non-performing loans

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

6- LOANS AND ADVANCES

(a) Classification

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

	KD 000's					
As at 31 December 2008	Kuwait	Asia	Europe	USA	Others	Total
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

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

(b) Movement in provisions for loans and advances

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

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

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

(c) Non-performing loans

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

	2008 KD 000's			2007 KD 000's		
	Loan Balance	Of which Secured	Available Provision	Loan Balance	Of which Secured	Available Provision
Granted prior to the invasion of Kuwait in 1990	93,403	-	93,403	88,349	-	88,349
Granted after the liberation of Kuwait in 1991	44,097	20,491	19,170	34,400	13,689	13,895
	137,500	**20,491**	**112,573**	**122,749**	**13,689**	**102,244**

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

7- INVESTMENT SECURITIES

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

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

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

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

8- GOODWILL AND INTANGIBLE ASSETS

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

Intangible assets represents the value of a brokerage license (KD 16,185 thousand), patents (KD 57 thousand) and customer relationship (KD 655 thousand) resulting from the acquisition of a subsidiary during the year (note 21). The brokerage license is considered to have an indefinite useful life. As at 31 December 2008 there was no indication of any impairment of this particular asset. The customer relationship will be amortised over a period of 5 years.

9- OTHER ASSETS

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

Other assets are classified as "loans and receivables".

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

10- DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

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

11- CUSTOMER DEPOSITS

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

12- OTHER LIABILITIES

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

13- Equity

(a) Share capital

The share capital comprises of 1,272,022,346 (2007: 1,211,449,853) authorized, subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management please refer to note III "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

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

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

(c) Share premium

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

(d) Statutory and general reserves

In accordance with the Commercial Companies Law of 1960 and the Bank's Articles of Association, the Bank has transferred KD 3,029 thousand (2007: KD 2,884 thousand) to statutory reserve, to reach 50% of the share capital.

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

The general reserve was created in accordance with the Bank's Articles of Association and is available for distribution. During the years 2008 and 2007 there were no transfers to general reserve.

(e) Treasury shares reserve

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

(f) Property revaluation reserve

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

(g) Fair valuation reserve

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

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

14- INTEREST INCOME

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

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

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

15- INTEREST EXPENSE

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

16- NET GAIN FROM INVESTMENT SECURITIES

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

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17- OTHER OPERATING INCOME

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

18- IMPAIRMENT AND OTHER PROVISIONS

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

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

19- TAXES AND CONTRIBUTIONS

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

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

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

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

20- EARNINGS PER SHARE

	2008	2007
Net profit for the year attributable to shareholders' of the Bank (KD 000's)	100,655	120,356
Weighted average of authorised and subscribed shares (numbers in 000's)	1,272,022	1,272,022
Less: Weighted average of own shares held (numbers in 000's)	(23,442)	(5,916)
	1,248,580	1,266,106
Earnings per share attributable to shareholders' of the Bank (fils)	**80.6**	**95.1**

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

21- SUBSIDIARIES

a) In December 2007, the Bank incorporated a 100% owned subsidiary, Tijari Investment Company K.S.C. (Closed) engaged in investment banking activities, with an authorized and subscribed capital of KD 15,000 thousand.

b) In February 2008, the Bank acquired 51% of the equity of Union Securities Brokerage Company K.S.C. (Closed) engaged in brokerage services, for a consideration of KD 13,853 thousand. In April 2008, the percentage of holding was increased to 80% for a total purchase consideration of KD 21,730 thousand.

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

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

22- RELATED PARTY TRANSACTIONS

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

	2008			2007		
	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's	Number of Directors/ Executives	Number of Related Members	Amount in KD 000's
Board of Directors						
Loans	1	2	34,908	1	2	34,333
Credit cards	1	3	11	2	4	3
Deposits	7	16	511	6	15	238
Executive Management						
Loans	14	1	298	10	1	376
Credit cards	9	6	13	5	8	7
Deposits	14	31	5,464	12	32	851

The loans issued to directors, key management personnel and related members are repayable within 4 years and have interest rates of 4.50 % to 7.75 % (2007: 5.00 % to 8.75 %). The loans given are collateralised by real-estate and equities. The fair value of these collaterals as at 31 December 2008 is KD 55,649 thousand (2007: KD 50,370 thousand).

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

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

23- FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

24- FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

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

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

(b) Overall risk management

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

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

(i) CREDIT RISK

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

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

A) Credit risk concentration

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

B) Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents the maximum credit risk exposure at the balance sheet date without taking account of any collateral and other credit enhancements.

	2008 KD 000's	2007 KD 000's
Credit exposure relating to on balance sheet items		
Cash and short term funds	319,709	370,024
Treasury and Central Bank bonds	251,811	207,645
Due from banks and OFIs	943,282	1,209,337
Loans and advances - Corporate	2,257,551	2,024,299
Loans and advances - Retail	372,523	357,237
Debt securities	14,273	20,612
Other assets	185,651	23,509
	4,344,800	**4,212,663**

	2008 KD 000's	2007 KD 000's
Credit exposure relating to off balance sheet items		
Acceptances	252,065	79,422
Letters of credit	562,471	658,198
Letters of guarantee	1,122,408	1,021,150
Others	42,251	36,265
	1,979,195	1,795,035
	6,323,995	**6,007,698**

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

C) Collateral and other credit enhancements

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

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

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 2008						
Loans and advances - Corporate	85,763	1,506,961	484,615	41,443	125,856	44,302
Loans and advances - Banks	1,270	1,197	78,680	-	4,121	-
Loans and advances - Retail	-	372,523	-	1,269	11,644	-
	87,033	**1,880,681**	**563,295**	**42,712**	**141,621**	**44,302**
As at 31 December 2007						
Loans and advances - Corporate	99,867	1,309,221	492,359	7,881	114,971	16,203
Loans and advances - Banks	13,782	2,155	140,431	-	4,076	-
Loans and advances - Retail	-	347,994	-	1,465	7,778	-
	113,649	**1,659,370**	**632,790**	**9,346**	**126,825**	**16,203**

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

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

E) Concentration of financial assets and off balance sheet items

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

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

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

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

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

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

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

(ii) MARKET RISK

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

A) Interest rate risk

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

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

As at 31 December 2008	KD 000's						% Effective rate of Interest
	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	
ASSETS							
Cash and short term funds	291,886	-	-	-	27,823	319,709	0 - 4
Treasury and Central Bank bonds	51,452	65,270	129,486	5,339	264	251,811	2 - 4
Due from banks and OFIs	407,024	334,712	182,835	14,590	-	939,161	6 - 7
Loans and advances	2,231,870	167,639	81,640	22,242	(73,010)	2,430,381	4 - 9
Investment securities	2,784	7,826	8,311	-	111,571	130,492	4 - 5
Premises and equipment	-	-	-	-	30,784	30,784	-
Goodwill and intangible assets	-	-	-	-	18,662	18,662	-
Other assets	28,403	2,677	2,391	-	152,180	185,651	-
	3,013,419	**578,124**	**404,663**	**42,171**	**268,274**	**4,306,651**	
LIABILITIES							
Due to banks and OFIs	638,869	158,178	201,266	-	44,380	1,042,693	3 - 5
Customer deposits	1,198,974	675,581	507,329	1,515	261,441	2,644,840	0 - 5
Other liabilities	4,390	1,300	2,328	545	113,162	121,725	-
	1,842,233	**835,059**	**710,923**	**2,060**	**418,983**	**3,809,258**	
Total interest rate sensitive gap	**1,171,186**	**(256,935)**	**(306,260)**	**40,111**			

As at 31 December 2007	KD 000's						% Effective rate of Interest
	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	
ASSETS							
Cash and short term funds	341,489	-	-	-	28,535	370,024	0 - 5
Treasury and Central Bank bonds	9,001	36,273	151,401	10,963	7	207,645	5 – 6
Due from banks and OFIs	468,891	79,492	613,242	43,636	-	1,205,261	6 – 8
Loans and advances	1,977,138	237,587	28,211	23,913	(52,628)	2,214,221	4 – 10
Investment securities	2,759	9,720	8,823	-	219,683	240,985	6 – 7
Premises and equipment	-	-	-	-	27,648	27,648	-
Other assets	7,960	1,596	5,296	-	8,657	23,509	-
	2,807,238	**364,668**	**806,973**	**78,512**	**231,902**	**4,289,293**	
LIABILITIES							
Due to banks and OFIs	758,403	119,766	97,411	-	33,916	1,009,496	3 - 5
Customer deposits	1,173,243	331,520	860,959	1,639	268,489	2,635,850	0 – 6
Subordinated loan	-	16,380	-	-	-	16,380	6
Other liabilities	2,783	220	679	1,496	95,373	100,551	-
	1,934,429	**467,886**	**959,049**	**3,135**	**397,778**	**3,762,277**	
Total interest rate sensitive gap	**872,809**	**(103,218)**	**(152,076)**	**75,377**			

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

KD 000's

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

B) Currency risk

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

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

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

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

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

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

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

	KD 000's			
	Impact on statment of income		Impact on equity	
As at 31 December 2008	@ 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

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

C) Equity price risk

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

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

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

(iii) LIQUIDITY RISK

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

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

As at 31 December 2008	KD 000's					
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	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**

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

As at 31 December 2007	KD 000's Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
ASSETS						
Cash and short term funds	370,024	-	-	-	-	370,024
Treasury and Central Bank bonds	205,523	1,390	732	-	-	207,645
Due from banks and OFIs	468,858	79,493	189,547	423,695	43,668	1,205,261
Loans and advances	323,989	464,163	396,483	332,322	697,264	2,214,221
Investment securities	179,301	80	118	-	61,486	240,985
Premises and equipment	-	-	-	-	27,648	27,648
Other assets	15,063	1,600	2,505	2,790	1,551	23,509
	1,562,758	**546,726**	**589,385**	**758,807**	**831,617**	**4,289,293**
LIABILITIES						
Due to banks and OFIs	792,316	119,768	85,845	11,567	-	1,009,496
Customer deposits	1,441,739	331,519	324,226	536,733	1,633	2,635,850
Subordinated loan	-	-	-	-	16,380	16,380
Other liabilities	42,150	6,040	6,950	5,246	40,165	100,551
	2,276,205	**457,327**	**417,021**	**553,546**	**58,178**	**3,762,277**
Net liquidity gap	**(713,447)**	**89,399**	**172,364**	**205,261**	**773,439**	**527,016**

(b) Contractual expiry by maturity

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

(c) Contractual undiscounted repayment obligations by maturity

As at 31 December 2008	KD 000's 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**

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

25- OPERATIONAL RISK

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

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

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

26- SEGMENTAL ANALYSIS

(a) By business units

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

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

B) By geographic sector

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

27- OFF BALANCE SHEET ITEMS

(a) Financial instruments with contractual amounts

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

(b) Fiduciary assets

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

(c) Legal claims

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

28- CAPITAL ADEQUACY

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

29- COMPARATIVE FIGURES

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

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 DECEMBER 2008

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.

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

	2008			2007		
NAME	Country	Ownership%	KD 000's	Country	Ownership%	KD 000's
Al Safat Takaful Insurance Co.	Kuwait	10.00%	547	Kuwait	10.00%	275

The capital ratio would have been 15.52% (2007: 14.61%) as against 15.54% (2007: 14.62%) 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 2007: 1,211,449,853) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2008, the Bank held nil (31 December 2007: 5,166,651 or 0.4%) of its own shares.

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 DECEMBER 2008

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

	2008 KD 000's	2007 KD 000's
a. Tier 1 capital :		
1. Paid-up share capital	127,202	121,145
2. Proposed bonus shares	-	6,057
3. Share premium	66,791	66,791
4. Statutory reserve	63,601	60,572
5. General reserve	17,927	17,927
6. Retained earnings	91,814	44,372
7. Own share reserve	45,603	52,242
8. Minority interests in consolidated subsidiaries	691	-
9. Goodwill	(1,765)	-
10. Significant minority investments in banking entities	(4,835)	-
11. Surplus capital from insurance companies	-	-
12. Bank's own shares	-	(7,223)
Total tier 1 capital	**407,029**	**361,883**

	2008 KD 000's	2007 KD 000's
b. Tier 2 capital.		
1. Asset revaluation reserve (45% only)	11,401	10,312
2. Fair value reserve (45% only with the concurrence of external auditors)	3,397	17,858
3. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	35,305	36,360
4. Subordinated loan	-	16,380
Total tier 2 capital	**50,103**	**80,910**
Total eligible capital	**457,132**	**442,793**

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

	2008 KD 000's			2007 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
a. Credit risk						
1. Cash items	170,215	-	-	29,310	-	-
2. Claims on sovereigns	280,909	-	-	304,491	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	13,689	2,738	329	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	1,521,580	548,716	65,846	1,744,655	672,392	80,687
7. Claims on corporates	2,523,177	1,087,415	130,490	3,024,406	1,296,475	155,577
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	411,207	371,501	44,580	390,481	284,210	34,105
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	26,795	12,779	1,533	20,502	17,485	2,098
12. Other assets	1,394,543	731,561	87,787	592,832	592,832	71,140
	6,342,115	**2,754,710**	**330,565**	**6,106,677**	**2,863,394**	**343,607**

	2008 KD 000's			2007 KD 000's		
	Gross exposures	Net Risk weighted assets	Capital requirement	Gross exposures	Net Risk weighted assets	Capital requirement
b. Market risk						
1. Interest rate position risk	-	-	-	-	-	-
2. Equities position risk	7,598	10,127	1,215	8,293	11,053	1,326
3. Foreign exchange risk	2,558	1,705	205	7,006	4,669	560
4. Commodities risk	-	-	-	-	-	-
5. Options	-	-	-	-	-	-
Total	**10,156**	**11,832**	**1,420**	**15,299**	**15,722**	**1,886**
c. Operational risk	147,351	175,276	21,033	126,944	149,147	17,898
Total	**6,499,622**	**2,941,818**	**353,018**	**6,248,920**	**3,028,263**	**363,391**

B) Capital ratios

	2008	2007
1. Total capital ratio	15.54%	14.62%
2. Tier 1 capital ratio	13.84%	11.95%

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 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 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.

(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.

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.

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 contingency plan also forms part of the liquidity management framework.

(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.

(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. 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.

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.

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:

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

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

External Credit Assessment Institutions (ECAIs) used for capital adequacy computation are in accordance with 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.

(a) Gross credit exposures

	2008 KD 000's			2007 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	170,215	170,215	-	29,310	29,310	-
2. Claims on sovereigns	280,909	280,909	-	304,491	304,491	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	13,689	13,689	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	1,521,580	1,145,302	376,278	1,744,655	1,365,289	379,366
7. Claims on corporates	2,523,177	1,009,574	1,513,603	3,024,406	1,620,290	1,404,116
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	411,207	398,254	12,953	390,481	378,928	11,553
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	26,795	24,928	1,867	20,502	20,502	-
12. Other assets	1,394,543	1,320,049	74,494	592,832	592,832	-
	6,342,115	**4,362,920**	**1,979,195**	**6,106,677**	**4,311,642**	**1,795,035**

(b) Average gross credit exposures

	2008 KD 000's			2007 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	78,597	78,597	-	31,406	31,406	-
2. Claims on sovereigns	288,318	288,318	-	330,158	330,158	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	4,563	4,563	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	1,681,162	1,288,325	392,837	1,329,630	1,030,889	298,741
7. Claims on corporates	2,774,842	1,296,001	1,478,841	2,506,928	1,362,767	1,144,162
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	400,779	388,432	12,347	389,270	378,139	11,131
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	21,147	20,525	622	22,189	22,190	-
12. Other assets	1,035,301	973,784	61,517	504,283	504,283	-
	6,284,709	**4,338,545**	**1,946,164**	**5,113,864**	**3,659,832**	**1,454,034**

(c) Total credit exposures by geographic sector

As at 31 December 2008	KD 000's					
	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	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%**

As at 31 December 2007	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	29,310	-	-	-	-	**29,310**
2. Claims on sovereigns	304,491	-	-	-	-	**304,491**
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	101,309	1,329,473	255,704	3,931	54,238	**1,744,655**
7. Claims on corporates	2,974,563	24,614	18,260	1,251	5,718	**3,024,406**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	390,481	-	-	-	-	**390,481**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	19,394	1,108	-	-	-	**20,502**
12. Other assets	499,479	72,020	17,121	4,212	-	**592,832**
	4,319,027	**1,427,215**	**291,085**	**9,394**	**59,956**	**6,106,677**
Percentage of credit exposure by geographical sector	**70.7%**	**23.4%**	**4.8%**	**0.2%**	**1.0%**	**100%**

(d) Funded credit exposures by geographic sector

As at 31 December 2008	KD 000's					
	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%**

As at 31 December 2007	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	29,310	-	-	-	-	**29.310**
2. Claims on sovereigns	304,491	-	-	-	-	**304,491**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	84,283	1,081,119	193,500	3,609	2,778	**1,365,289**
7. Claims on corporates	1,570,451	24,614	18,260	1,247	5,718	**1,620,290**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	378,928	-	-	-	-	**378,928**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	19,394	1,108	-	-	-	**20,502**
12. Other assets	499,479	72,020	17,121	4,212	-	**592,832**
	2,886,336	**1,178,861**	**228,881**	**9,068**	**8,496**	**4,311,642**
Percentage of funded credit exposure by geographical sector	**66.9%**	**27.3%**	**5.3%**	**0.2%**	**0.2%**	**100%**

(e) Unfunded credit exposures by geographic sector

As at 31 December 2008	KD 000's					
	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%**

As at 31 December 2007	KD 000's					
	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	17,026	248,354	62,204	322	51,460	**379,366**
7. Claims on corporates	1,404,112	-	-	4	-	**1,404,116**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	11,553	-	-	-	-	**11,553**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	1,432,691	**248,354**	**62,204**	**326**	**51,460**	**1,795,035**
Percentage of unfunded credit exposure by geographical sector	**79.8%**	**13.8%**	**3.5%**	**0.0%**	**2.9%**	**100%**

(f) Total credit exposures by residual maturity

As at 31 December 2008	KD 000's Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
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%**

As at 31 December 2007	KD 000's Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	29,310	-	-	-	-	**29,310**
2. Claims on sovereigns	105,677	36,305	69,954	81,582	10,973	**304,491**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	683,817	161,930	247,191	601,896	49,821	**1,744,655**
7. Claims on corporates	469,654	609,757	476,868	714,577	753,550	**3,024,406**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	16,453	5,077	5,843	8,300	354,808	**390,481**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	109	19,957	-	407	29	**20,502**
12. Other assets	246,559	77,810	119,993	49,563	98,907	**592,832**
	1,551,579	**910,836**	**919,849**	**1,456,325**	**1,268,088**	**6,106,677**
Percentage of total credit exposures by residual maturity	**25.4%**	**14.9%**	**15.1%**	**23.8%**	**20.8%**	**100%**

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(g) Funded credit exposures by residual maturity

As at 31 December 2008	KD 000's					
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
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%**

As at 31 December 2007	KD 000's					
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	29,310	-	-	-	-	**29,310**
2. Claims on sovereigns	105,677	36,305	69,954	81,582	10,973	**304,491**
3. Claims on international org.	-	-	-	-	-	**-**
4. Claims on PSEs	-	-	-	-	-	**-**
5. Claims on MDBs	-	-	-	-	-	**-**
6. Claims on banks	636,110	72,303	189,547	423,693	43,636	**1,365,289**
7. Claims on corporates	339,151	331,697	238,875	245,119	465,448	**1,620,290**
8. Claims on securitised assets	-	-	-	-	-	**-**
9. Regulatory retail	14,428	2,493	3,765	5,702	352,540	**378,928**
10. RHLs eligible for 35% RW	-	-	-	-	-	**-**
11. Past due exposure	109	19,957	-	407	29	**20,502**
12. Other assets	246,559	77,810	119,993	49,563	98,907	**592,832**
	1,371,344	**540,565**	**622,134**	**806,066**	**971,533**	**4,311,642**
Percentage of funded credit exposures by residual maturity	**31.8%**	**12.5%**	**14.4%**	**18.7%**	**22.5%**	**100%**

(h) Unfunded credit exposures by residual maturity

As at 31 December 2008	KD 000's					
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	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%**

As at 31 December 2007	KD 000's					
	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	47,707	89,627	57,644	178,203	6,185	**379,366**
7. Claims on corporates	130,503	278,060	237,993	469,458	288,102	**1,404,116**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,025	2,584	2,078	2,598	2,268	**11,553**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	180,235	**370,271**	**297,715**	**650,259**	**296,555**	**1,795,035**
Percentage of unfunded credit exposures by residual maturity	**10.0%**	**20.6%**	**16.6%**	**36.2%**	**16.5%**	**100%**

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(i) Impaired loans by standard portfolio

	2008 KD 000's			2007 KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	72,692	(72,692)	-	67,802	(67,802)	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	4,121	(4,121)	-	4,076	(4,076)	-
7. Claims on corporates	53,164	(32,396)	20,768	46,011	(29,420)	16,591
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	11,644	(7,484)	4,160	8,936	(5,025)	3,911
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	141,621	**(116,693)**	**24,928**	**126,825**	**(106,323)**	**20,502**

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

	2008 KD 000's		2007 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	-	-	-	-
7. Claims on corporates	66,746	28,995	55,628	1,508
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	5,267	780	9,442	4,120
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	15,107	-	-	-
	87,120	**29,775**	**65,070**	**5,628**

(k) Impaired loans and provisions by geographic sector

	2008 KD 000's			2007 KD 000's		
	Gross Debt	Specific Provision	Net Debt	Gross Debt	Specific Provision	Net Debt
Kuwait	50,546	(25,619)	24,927	40,838	(20,336)	20,502
Asia	4,363	(4,363)	-	4,088	(4,088)	-
Europe	2,278	(2,278)	-	2,253	(2,253)	-
USA	11,741	(11,741)	-	11,844	(11,844)	-
Others	72,692	(72,692)	-	67,802	(67,802)	-
	141,620	**(116,693)**	**24,927**	**126,825**	**(106,323)**	**20,502**

General provision as at 31 December 2008 amounting to KD 87,120 thousand (2007: KD 65,070 thousand) is related to Kuwait.

(l) Movement in provisions

	2008 KD 000's			2007 KD 000's		
	Specific	General	Total	Specific	General	Total
Provisions 1 January	106,323	65,070	171,393	101,973	67,093	169,066
Write-offs	(3,248)	-	(3,248)	(4,010)	-	(4,010)
Exchange differences	5,095	-	5,095	490	-	490
Recoveries	1,569	-	1,569	1,600	-	1,600
Ceded to Central Bank	(123)	-	(123)	(60)	-	(60)
Statement of income	7,077	22,050	29,127	6,330	(2,023)	4,307
Provisions 31 December	**116,693**	**87,120**	**203,813**	**106,323**	**65,070**	**171,393**

(m) Credit exposures after CRM and CCF

	2008 KD 000's		2007 KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	Unrated Exposures	Rated Exposures	Unrated Exposures
1. Cash items	-	170,215	-	29,310
2. Claims on sovereigns	-	281,880	-	304,633
3. Claims on international org.	-	-	-	-
4. Claims on PSEs	-	13,689	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	551,436	669,231	823,332	619,808
7. Claims on corporates	-	1,157,140	-	1,341,893
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	-	374,037	-	378,947
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	13,769	-	18,870
12. Other assets	-	650,549	-	592,832
	551,436	**3,330,510**	**823,332**	**3,286,293**

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.

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

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**	-

As at 31 December 2007	KD 000's			
	Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	29,310	-	-	-
2. Claims on sovereigns	304,491	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	1,744,655	-	-	-
7. Claims on corporates	3,024,406	1,120,656	786,419	-
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	390,481	46,005	4,665	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	20,502	2,420	1,632	-
12. Other assets	592,832	-	-	-
	6,106,677	**1,169,081**	**792,716**	-

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:

	2008 KD 000's	2007 KD 000's
1. Interest rate position risk	-	-
2. Equity position risk	1,215	1,326
3. Foreign exchange risk	205	560
4. Commodities risk	-	-
5. Options	-	-
	1,420	**1,886**

VIII- Operational risk

The Bank uses the standardised approach for computation of operational risk capital charge that amounted to KD 21,033 thousand (2007: KD 17,905 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.

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 equity. When the "available for sale" investment is disposed off or impaired, any prior fair value adjustments earlier reported in equity 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:

	2008 KD 000's	2007 KD 000's
1. Value of investment disclosed in the balance sheet	**83,427**	**172,626**
2. Type and nature of investment securities available for sale		
- Equity securities -quoted	31,879	140,752
- Equity securities -unquoted	51,548	31,874
	83,427	**172,626**
3. Cumulative realised gains (net) arising from sales of investment securities	**39,301**	**23,093**
4. Total unrealised gains (net) recognised in the balance sheet but not through profit and loss account	**(2,775)**	**35,905**
5. 45% of item (4) included in Tier 2 capital	**-**	**16,157**
6. Capital requirements		
Available for sale	**9,678**	**18,345**

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:

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

Branch Network

	Tel.	Fax
Mubarak Al-Kabir (H.O.)	22411001 /50	22464870
Abdulla Mubarak Area	22990059 /22990152	22990193
Abdulla Mubarak Street	22438190	22404826
Abu Halaifa	23720408	23720449
Airport (Departure)	24746492	24741951
Airport (Arrival)	24746492	24741951
Airport (Customs)	24712099	24712088
Ali Sabah Al Salem	23280661	23280662
Andalus	22990036	24889129
Ardhiya	24885381	24887316
Bneid Al Gar	22990052	22562675
Daher	23830724 /5	23830726
Dasma	22990102 /22990108	22990025
Dhow Tower	22412011	22411961
East Ahmadi	23980254	23980434
Fahed Al Salem	22990009	22990011
Fahaheel	23911308	23915935
Fahaheel - AJYAL	23913904 /3	23913905
Farwaniya	22990027	24723493
Hawalli	22630696	22616451
Hawalli Beirut Street	22621901	22621904
Hawalli Al Mohalab	22640230	22640606
Jaber Al Ali	23849883	23840191
Jabriya	25330793	25334632
Jahra	24552447	24551580
Kheitan	24745994	24745584
Khaldiya	24841128	24810549
Kuwait Free Zone	24610061 /00	24610062
Labor Unit	24344044	24335856
Mansouriya	22573990	22573880
Ministries Complex	22474150	22474151
Naeem	24571776	24571797
Omariya	24711465	24723487
Qurain	25440037	25440035
Rabia	24719131	24719677
Ras Al Salmiya	25719574	25719570
Rai	22990045	22990329
Rumaithiya	25623726	25654902
Sabah Al Salem	22990054	22990354
Sabahiya	23618732	23613069
Salhiya	22465208	22463492
Salmiya	25734514	25727053
Salwa	22990051	25610780
Sharq	22454879	22454869
Shuwaikh	24814643	24837952
Sixth Ring Road	24344044	24345382
Soor Street	22990182 /4	22418997
Souk Salmiya	25737327	25737326
Souk Sharq	22421893	22421845
South Surra (Al Salam)	22990055	22990356
Sulaibikhat	24870989	24877318
Traders Mall	22990053	22475018
Vegetable Market	24838667	24817859
West Mishref	25379272	25379277
Yarmouk	25352181	25352182