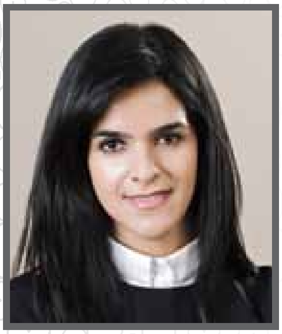
BOARD OF DIRECTORS

Ali Yousef Al Awadhi
Chairman



Anoud Fadil Al Hathran
Deputy Chairman

Bader Sulaiman Al Ahmed
Member

Ahmad Mohammed Al Mishari
Member

Tareq Farid Al Othman
Member

Salem Ali Hassan Al Ali
Member

Majed Ali Owaid Awad
Member

Fowzi Abdul Mohsen Al Ateeqi
Secretary to the Board

INTRODUCTION

AL-TIJARI... MY CHOICE

Commercial Bank of Kuwait is a renowned financial institution that was established in 1960. The bank offers its customers a wide spectrum of corporate, retail, investment and financial services. In June 2010 the bank celebrated its 50th anniversary.

As the second oldest bank in Kuwait, Commercial Bank has a predominant position in the market with a large client base. The bank is operating the second largest full service branch network in Kuwait.

The bank's Board of Directors, elected in 2010, has in cooperation with one of the professional advisory firms, identified a five-year strategic plan that aims at addressing and overcoming the woes brought by global financial crisis, with particular focus on restoring the bank back to high profitability levels generated from core banking activities.

To this end, the Board of Directors is closely working with the executive management team to maximize shareholders' returns, cater for customers' banking needs and ensure the bank's corporate social responsibility as a socially responsible bank.

Ali Yousef Al Awadhi
Chairman

CHAIRMAN'S MESSAGE

Dear Shareholders,

On behalf of the Board of Directors, I have the pleasure to present the bank's annual report for 2011.

The planned strategy, to be a leading retail bank in Kuwait and to be the best bank for commercial business while outperforming our peers in profitability, is moving well ahead. Our values, productivity driven, customer centric, operational excellence, performance orientated and prudent risk-taking underpin our vision.

A downward trend still dominates the Kuwait economy due to weak government spending and the poor performance of the Kuwait Stock Exchange with the resultant negative impact on asset values. Domestic political issues and regional unrest add to the uncertainty. Improvement in the economic and business environment will positively reflect on the banking sector and on the bank.

Performance indicators show a return to profitable growth with operating profit before provisions up 8% on last year, net interest income up 4% and non interest income 6%. Reduced operating expenses maintain the bank's low cost structure and continue to underpin financial performance.

Strengthening its financial position, the bank has continued its prudent policy towards building up a strong provision base and reducing the percentage of non-performing loans.

The bank's profit before provisions was KD 101.2 million, and after provisions against the loan and investment portfolios, the net profit attributable to shareholders of the parent bank was KD 0.810 million with earnings per share of 0.6 fils. Total assets were KD 3.7 billion and total shareholder funds were KD 530.5 million at the end of 2011.

The bank also has a strong capital base with a capital adequacy ratio of 18.58%, which comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

The Board of Directors propose that no dividend is paid.

Appreciation

In conclusion, and on behalf of the Board of Directors, I wish to express sincere gratitude and appreciation to His Highness the Amir Sheikh Sabah Al-Ahmed Al-Sabah, His Highness the Crown Prince Sheikh Nawaf Al-Ahmed Al-Sabah, and His Highness the Prime Minister Sheikh Nasser Al-Mohammed Al-Sabah.

We would also like to extend our thanks to the Central Bank of Kuwait and all other regulatory agencies for their continuous support to the Banking sector in Kuwait.

The Board of Directors would also like to express gratitude to our valued shareholders for their confidence and continued support of Commercial Bank of Kuwait. We also 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 Acting CEO Ms. Elham Mahfouz, the senior management team and our employees who remain focused on achieving the bank's strategic objectives through their professionalism, dedication, energy, and commitment.

Ali Yousef Al Awadhi
Chairman

ECONOMIC BACKGROUND

GLOBAL ECONOMY

The Global economy in 2011 is seen struggling further to come back on the revival path after experiencing the deepest global slow-down in recent history. The economic recovery still remains on unsteady legs and now is at a critical junction between boom and recession.

The economic stimulus packages put-through by major Governments and Central Banks across the globe in the past few years have not achieved their targeted results.

The major challenges currently facing the world economy are:
• Debt problems in Europe & US
• Unrest in the Middle East
• Rising oil prices
• Higher inflation in China and other emerging economies

Major Central Banks in the developed countries continued their expansionary monetary policies throughout 2011 and yet managed to keep interest rates down to record lows.

The IMF believes global growth will shrink to 4% in 2012 on factors such as "major financial turbulence in the Euro zone".

The financial storms brewing in the US and Europe are currently threatening the world economic landscape and are pointing to a global recession in the coming year. The chances for another US recession are rising and Europe's recovery is also at risk.

KUWAIT ECONOMY

Like any other GCC Country, the Kuwaiti economy also depends very much on the world oil market as almost 90% of its public revenue is coming from oil exports.

In 2011, the Kuwaiti economy witnessed growth momentum, after being faced with the recessionary pressures of the 2008 financial crisis, largely on the Government's accelerated spending backed with higher oil price of around $ 80 to 90 per barrel and also on abundant liquidity prevailing in the banking system. The Government's initiatives in starting new projects and the Central Bank's monetary policy actions helped the economy to perform better than expected in 2011.

Nevertheless, given the sluggishness of the global economic recovery expected for 2012 and the uncertainty of oil demand, the outlook continues to be a great risk to the Kuwaiti economy.

Further, going forward, the Kuwait Government's comprehensive development plan with new projects expected to launch soon and the near term bleak outlook for US & European economies, provide enough comfort for many corporate investors to choose Kuwait as a land for safe and better investment.

KUWAIT STOCK EXCHANGE

Overall, the performance of Kuwait Stock Exchange remained rather dull in 2011. Although the Kuwait Stock Exchange index touched a high of 7,004 during the early part of the year, the index tended to move mostly south wards and touched as low as 5,746 during the 3rd quarter which indicates a lack of investor confidence. Indeed, the index closed the year-end at 5,814, far below the year high.

Despite having abundant liquidity in the banking system with rather low interest rates, the stock market remained mostly at the lowest ebb, a reflection of the slow credit growth vis-à-vis economic growth.

Going further forward, expected strong corporate earnings, the Government's comprehensive development support plan, possible higher oil price and the easing of US and European debt problems do give hope to see the KSE index climb to higher levels during 2012.

REVIEW OF OPERATIONS

RETAIL BANKING DIVISION

2011 saw the Retail Banking Division begin the execution of a revamped business strategy which centred on customer segmentation, integration of alternate delivery channels, rationalisation of the branch network and the development of a high performance culture. The strategy takes a five-year view of the market and much of 2011 involved putting in place the building blocks on which the future business will be based.

Even with the domestic economy sluggish and strict regulations limiting asset growth, the performance of the Retail Banking has been very positive. Given that asset growth would be limited, the concentration on business expansion has been focused on the liability side of the balance sheet, as well as attracting new clients and up selling and cross selling products to current customers. Progress in all these areas of our business has been strong.

In the first quarter of 2011, the bank's draw account Al Najma was completely revamped to offer the highest daily draw prize along with quarterly mega prizes in four occasions; namely, the National Day of Kuwait, Eid Al-Fitr, Eid Al-Adha, and the anniversary of the bank establishment. This initiative was extremely well received in the marketplace with a significant volume of new funds being attracted. The substantial growth achieved in the liability book also reflects the contribution of a wide branch network to deposit gathering activities. This growth was particularly pleasing as it was achieved whilst driving down the cost of funds.

The prepaid card product launched so successfully last year has seen substantial growth this year with the card portfolio up by some 40%. The marketing and sales teams have established many key strategic alliances with leading names in the market enabling us drive successful sales campaigns and attract new customers to the bank.

CBK Classic, Gold, Platinum and Infinite credit cards continue to cater for customers' needs and requirements featured with their worldwide acceptability and tailored to satisfy the needs of wide base segment of customers. The Card Center continued also its endeavors to provide the maximum protection levels to customers through employing state-of-the-art technological features in the card industry. The Call Center also continued to provide customers with tele-banking services at fingertips by responding to their queries, specifically during long holidays and beyond the official business hours.

The branch network is under continuous review in order to ensure that we are represented in the most advantageous areas of the country. New branches are under construction and scheduled for opening in early 2012.

A complete re-organization of the management structure of the branch network and the organization structure within the branch has taken place. In addition, our training this year has really focused on sales and customer service skills. We are creating a much more focused work force with the customer at the heart of everything we do. Sales activities have been supported by a comprehensive and aggressive sales incentive program which is based on the balanced scorecard.

During 2011, we have continued to grow our merchant acquiring business and now hold the second largest market share of all Kuwaiti Banks. This is a strategic area of our business as it provides many opportunities to upsell and cross sell products to the merchants and their employees, as well as the public.

CORPORATE CREDIT DIVISION

Several factors like the fiscal and monetary crisis of the USA, the near bankruptcy position of economies like Greece, Portugal, Spain and Italy in the Euro zone and the rising inflation in the emerging markets have all contributed to deceleration of the world economy and dampening of the entrepreneurial spirit in 2011. In the local markets, the unstable political situation in the MENA region has hampered growth and the speed of revival that was visible in the beginning of the year.

However, even in this gloom, there have been certain bright spots. The international economy drew strength from the resilient Asian markets and the quick recovery of the Japanese economy. Locally, the steady oil prices have ensured that Kuwait continues to show surpluses and impressive growth in GDP. These factors somehow balance the negatives and provide hope for the future.

In this given context, the Corporate Credit Division of Commercial Bank of Kuwait had to work exceptionally hard to improve its assets profile and maintain market share. The slow implementation of the economic development plan, the sluggish real estate market and the still very jittery stock market made us continue a cautious approach to lending. However, we have exploited every available opportunity to diversify and strengthen our revenue streams. As an indication of our commitment to support the economy boosting initiatives of the Government, we lead managed a syndicate lending of $1.2 billion for phase II of the transformation of Al Zour South power plant. In the private sector we have taken selected exposures, with highly comfortable collateral coverage and dependable cash flows.

Steps to safeguard the interests of the stakeholders have been given priority. Efforts to reduce the non-performing assets have received specific attention. The creation of reserves to meet contingencies has been continued and the bank has built up a suitable buffer to protect it against any unexpected set backs in the future as well. Housekeeping has also been given top most priority.

Although the challenges have been daunting, the past investment in quality personnel has helped the division meet it with confidence.

INTERNATIONAL BANKING DIVISION

CBK's relationships with banks located in the local, regional and international markets allow us to support our customers and shareholders. Through CBK's correspondent banks, International Banking Division maintains a broad base of reciprocal business and takes proprietary positions by investing in a trade and project related portfolio that maximizes the bank's fee income. Additionally, our extensive relationships with foreign banks enable our bank to expand the bank's fee income by choosing CBK's partners for all foreign payments.

In 2011, International Banking Division managed to cut costs by rationalizing its cost base while it simultaneously increased fee income from guarantee and trade business.

TREASURY

The bank has an integrated Treasury which played a vital role in managing interest rate as well as foreign currency exposures while simultaneously maintaining proprietary positions to generate trading income for the bank.

Treasury continued to retain its leadership role in both the domestic money market as well as the local KD and FX market. Treasury gave further thrust in the foreign currency swap market on observing wide interest rate variations and that gave a new dimension to Treasury's profitability.

In addition to the Money Market & Foreign Exchange activities, Treasury focused on building a core portfolio of corporate and Treasury bonds.

Treasury continued its emphasis on developing customer business in the foreign exchange & deposits which saw a rise in volume turnover and thereby profitability too.

Treasury has also given special attention in boosting relationships with GCC as well as international banks and that has benefited the bank with larger credit lines allocated.

INVESTMENT

CBK Capital

CBK Capital is the fully owned subsidiary of the bank.

- Under its portfolio management activities, CBK Capital manages the proprietary investment portfolio of the bank. This portfolio generated income from the sale of investments, dividend and interest income. As a prudent measure, sufficient provisions were taken against certain investments.

- Under its asset management activities, CBK Capital manages four equity funds. During the year, asset management activities continued profitably earning fee income.

  All activities of CBK Capital are carried out as per the regulatory guidelines of Central Bank of Kuwait and the Capital Markets Authority.

RISK MANAGEMENT DIVISION

The Risk Management Division is mandated to effectively identify, measure, manage and mitigate the different risks faced by the bank. The bank is exposed to different types of risks in its day to day functioning, the material ones being credit risk, market risk, operational risk, liquidity risk, interest rate risk, concentration risk, reputational risk and strategic risk. The bank continues to assign the highest importance to the management of risks in order to combat the current as well as any potential stressful conditions.

The Risk Management Division conducts pre-approval assessment of credit proposals in order to assess the relevant risks and suggest mitigants. Post-approval assessments are also carried out to verify adherence to approved terms and ensure the continued creditworthiness of the portfolio. A periodic analysis of the bank's credit portfolio is also conducted to obtain an understanding of broad portfolio trends and to affirm their alignment with strategic objectives.

The division continued to work closely with all business units during the year to raise awareness of operational risks and perform Control Self Assessments (CSAs) of the processes and activities of different areas in order to identify and assess embedded operational risks. The continuation of a bank wide insurance policy enables effective transfer of operational risks to credit worthy institutions. All procedures are reviewed by the division before they can be released. A comprehensive exercise to review and enhance the bank's business continuity processes has been undertaken with the help of external consultants.

The division continues to improve upon establishment of standards, policies and processes in order to better monitor, measure and control the various risks. An enhanced model for internal risk grading is under development which is expected to be implemented early next year. A new model for measuring economic sector risks is also being developed and it is expected that the results of this model would assist in appropriate alignment of the portfolio consistent with the underlying risks of specific sectors. A new metric has been introduced during the year which is now used to warn the bank of impending liquidity stress situations. The bank has studied the Basel III regulations and has documented its views on various aspects of this regulation including those pertaining to applicability, implementation and features that are unique to the local market.

INFORMATION TECHNOLOGY

Information Technology Department assumes an important function in developing the bank's technological systems and providing the necessary technology infrastructure to the business areas at the bank as well as the back office and support functions to help render best services to customers. In this regard, the ITD in 2011 upgraded the technology infrastructure in the bank to the latest technologies in banking, to service the increasing business and customer requirements, in terms of introducing additional new hardware, Network topology re-design, and software enhancements, at the same time providing increased stability, enhanced performance and future growth capabilities. During 2011, the Quality Assurance functions were reinforced to enhance the service qualities and reduce turnaround resolution timeframes. The new core banking system has been fully implemented and at the same time completely phased out the legacy core banking system including the migration of the historical data. Unquestionably, the benefits of the full integration and utilization are being materialized now, in terms of improved business functionalities and enhanced customer experience, and providing solid foundation for future growth and maintain a competitive edge in the banking sector.

Customer services were also enhanced to provide instant issuance of ATM Debit cards in several branches besides the addition and relocation of ATM machines to more geographically customer convenient locations. Improved ATM management services are also provided.

Technological infrastructure capabilities were provided to enable the business divisions to perform diverse market research and trends analysis. Information systems at certain departments and divisions have been replaced to the new and latest software solutions and hardware platforms.

Furthermore, E-channels enhancements, including new functionalities in the information security were implemented to enhance the online banking security and mitigate web based frauds. Corporate customers were provided with Kiosk over laptops services as well as improving the normal customer response time and experience. Our backup Data Centre has been geographically relocated, and the infrastructure has also been redesigned, using additional servers and redundant network connectivity lines so as to further improve the availability of applications in effort to maintain robust and reliable disaster recovery (DR) and business continuity capabilities. The DR drills are being carried out to insure readiness and compliance with the set plans. Our Swift system is also being upgraded to the latest version as per the mandate from Swift. ITD continues to explore the different emerging technologies and is working closely with renowned technology partners to provide innovative solutions to our customers. We believe that our commitment to technology will help us maintain our competitive edge in the banking industry.

OPERATIONS DIVISION

The Operations Division plays a pivotal role in supporting all business divisions and customers through a number of departments and units reporting thereto; namely, Trade Services Department, Central Processing Department (CPD), Credit Administration Department, Loan Processing Unit, Treasury Operations, and Account Processing & Archiving Department.

During the year 2011, the Operations Division has embarked upon lean process to emphasize the optimum utilization of the potentials of the new core banking system which has been recently made functional all over the bank departments and divisions, along with enhancement of the human resources skills available in the Division, thereby facilitating delivery of better customer service.

For the purpose of streamlining the workflow in the Division, specialized functional units have been merged together, and this will help increase the productivity of the several units in the Division and enhance the customer service. The implementation of straight through process has considerably reduced the processing time of customer salaries and internal and external transfers. Furthermore, the lean process initiatives will be an ongoing exercise which identifies the opportunities and enable the bank to deliver the service in a cost effective manner and develop an enthusiastic work force at Central Processing Department without compromising the quality and operational risk.

As for the Credit Administration Department, it is deemed the backbone of Corporate Credit and International Banking Division, and it closely works with them to meet day-to-day operational requirements utilizing the new core banking system. The Treasury Operations supports the Treasury functions as well as the Investment Department. Implementation of SWIFT interface with Spectrum and access of Euclid on-line system strengthened controls over the Division's functions. Yet, the Account Processing & Archiving Department is responsible for data updating into the new core banking system and supports branches and various other units in the bank with regard to standing instructions and signature management.

HUMAN RESOURCES DEPARTMENT

In line with CBK's strategic goals and vision, employees are considered the most valuable banking tool and asset.

HRD-Recruitment Section oversees the recruitment, interviewing, testing, background checks, evaluation and selection of diverse workforce committed to quality service to our clients. By attending various annual events, such as University and College job fairs to attract potential Kuwaiti youth, we were able to consistently maintain the required percentage of Kuwaitis and support the Kuwaitization process. 125 Kuwaitis were recruited in the bank as at the end of December 2011, bringing the percentage of Kuwaitis to reach 60.56% as at the end of this period.

The Training Unit, proactively looks after employees training needs, to meet and exceed banking and management internationally recognized standards, to ensure clients satisfaction and loyalty. One approach to achieve this, is by investing in the in-house training, by cooperating with reputable and specialized training providers, and utilizing CBK's state-of-the-art in-house training facilities.

Another training approach is enrolling employees in recognized certification programs, in collaboration with the Institute of Banking Studies-(IBS), such as Certificate in Credit Management-(CCM); Certificate in Bank Branch Management-(CBBM); Certificate in Investment Management-(CIM); Certified Assistant Bank Branch Manager-(CABBM); and Kuwaiti Graduate Development Program. As for specialized topics, employees are sent abroad, to attend training courses and seminars, in order to obtain up-to-date knowledge and skills, to enhance their working performance. Total training courses provided during the year were 180 courses with 4,028 total training hours attended by 979 employees.

On another front and within the bank's social responsibility commitment, CBK offers students from local Universities, Institutes, Social Organizations, and employees' relatives, the opportunity for field training, during all year long, in all branches and departments.

INTERNAL AUDIT

The bank has a well established Internal Audit Department that continues to provide an independent and objective assessment of the bank's internal control systems by testing key processes and controls.

Internal audit activities focus on providing reasonable assurance that resources are adequately protected, significant financial and managerial information are materially complete and reliable. Audits were carried out covering the various business and operation areas including the bank's Internal Capital Adequacy Assessment Process (ICAAP), system audits of the implemented core banking modules, System Vulnerability Assessment and Penetration Testing, as per the risk based Audit Plan approved by Board Audit Committee. Internal Audit also carried out several special investigation assignments, and have provided value added advisory services to the Management on issues referred during the year.

ANTI-MONEY LAUNDERING UNIT

Money laundering continues to be a global concern and Kuwait assumed its role with the ratification of the Anti-Money Laundering & Terrorism Financing Law 35/2002. The Anti-Money Laundering Unit continues to monitor, investigate, and report any suspicious transactions. The bank's automated system extends coverage to all SWIFT messages in addition to domestic transactions and makes use of Central Bank of Kuwait, United Nations and U.S. Treasury OFAC sanctioned blacklists. Account opening procedures include checking against these lists in order to avoid dealing with or establishing business with any black listed names. The implementation of system upgrades during the year, that included case management and risk analysis, further enhanced AML monitoring. The Anti-Money Laundering Unit continues to comply with all regulatory requirements and ensure the implementation of best practices. The Anti-Money Laundering Unit in the bank is responsible to lay down and place the measures to combat illegal activities and prevent criminals from using the financial system as the conduit for their proceeds of crimes. To ensure that all the bank's customers are identified adequately, the bank has firm Know Your Customer (KYC) procedures in place. According to the rules and procedures adopted in the bank, customers account information are reviewed from time to time. The bank recognizes the importance of combating money laundering and according to our policy all bank employees are trained in anti-money laundering. Comprehensive training programs are in place for all new recruits as well as regular training and knowledge updates.

LEGAL DEPARTMENT

The Legal Department assumes a significant role in safeguarding the bank's assets. It provides legal opinions to the bank business functions and work closely with the bank's staff members giving them the necessary legal advice and consultations in pursuit of the established targets to provide the necessary protection to the bank while carrying on its business activities. The Legal Department, therefore, endeavors to establish continued coordination and communication with all departments and branches to provide them with legal advices, and to draft the required contracts and agreements and to stand up to any obstacle that may hinder the work flow. The Legal Department represents the bank before all departments of the Ministry of Justice and Ministry of Commerce and Industry and all courts to provide the utmost scope of protection and safety to the bank's rights, its shareholders and employees.

SERVICE QUALITY & CUSTOMER CARE

In the present banking system, excellence in customer service is the most important tool for sustained business growth and service quality has been increasingly recognized as a critical factor in the success of any business and the banking sector is not exceptional.

Since the bank's management believes that the delivery of high-service quality to customers offers the bank the opportunity to differentiate itself in such competitive marketplace, the Service Quality and Customer Care Department was enhanced to work closely with the business functions and to solve all customers' complaints in a satisfactory manner by coordinating with all departments to find solutions and ensure the non-recurrence of such complaints in future.

The Service Quality Unit in the bank endeavors to take the current customer service level into a competitive ones to retain the existing customers and attract new ones with a view to boost profitability levels.

In 2011, Kuwaiti banks were requested to have in place a formal complaints-handling practice. To comply with such regulatory requirements, the bank reorganized its Customer Care Unit, developed an official complaint form and created a web page on the bank's website so customers can easily log their complaints through various channels.

Commercial Bank of Kuwait's efforts to provide customers with innovative banking services shall continue within its strategy to become the bank of choice for all customer segments.

ADVERTISING & PUBLIC RELATIONS DEPARTMENT

The Advertising & Public Relations Department continues to assume its active role in Commercial Bank of Kuwait in terms of its in-house activities and its outdoor activities with society's civil service institutions. In terms of its in-house activities, the Department continues its vital role and efforts to enhance the bank staff inter-relations to create a convenient work friendly environment that will positively reflect on staff performance. The Advertising and Public Relations Department continued its endeavors to boost the bank relations with the civil society institutions with the objective of emphasizing the bank's corporate image and to reinforce the bank's position among other Kuwaiti institutions as a socially responsible bank. These objectives are materialized through the bank's generous contributions to social, cultural, sport and awareness activities, which fall within the bank's social responsibility. As such, and within its social outreaches, Commercial Bank continues to offer support and financial contributions to the diverse society segments such as charitable, health, educational, not-for-profit making organizations with the physically challenged segment continuing to acquire the lion's share of all support and contributions. Furthermore, the bank's efforts towards the environment continued with significant efforts exerted to maintain greenery and create a pollution-free environment. The Department continues to enhance the bank's efforts and presence in conferences and exhibitions organized in Kuwait and abroad.

The bank played a positive and prominent role and participated in Kuwait's National Day and the Liberation Day celebrations, whereas the Advertising & Public Relations Department has presented to His Highness the Amir Sheikh Sabah Al Ahmad Al Jaber Al Sabah a version of the advertisement of "Kuwait is My Choice" which was produced to mark this national occasion and was commended by H.H. Amir and praised by the public.

The Advertising & Public Relations Department continues to familiarize the bank's customers and non-customers with banking services and marketing campaigns and promotions launched by the bank by announcing the same in local newspapers, the bank's website and through other communication channels. Moreover, for the purpose of strengthening its efforts to keep up with modern technology to enhance the bank's identity and solidify its mission, the Advertising & Public Relations Department developed the means of direct communication with customers through Facebook, Twitter and other social network channels. The Department also released the bank's calendar for 2012 which depicted images reviving the Kuwaiti heritage and documented the past through art paintings which mirrored scenes from the old Kuwaiti heritage for the past life of forefathers and ancestors to remain remembered by the present and future generations. Images in the calendar demonstrated as well the present through a set of artistic scenes that reflected Kuwait's celebrations of its national days. To cast light on the social activities of the bank, the Department published a booklet on the bank's corporate social responsibility which highlighted the major social activities sponsored by the bank in 2011 within its corporate responsibility as a socially caring bank.

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 requiring them to enter 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 at 31st December 2011:

• Al Sharq Holding	23.11%
• Securities Group Co.-Clients Account	7.57%

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

The Board of Directors
- Appointment of the CEO and those who report to him
- Set objectives and policy frameworks including those related to Credit and Investment
- Formulation of overall banking and operating strategy
- Review and approve action plans and implementation
- Review and approve the annual budget
- Review and approve internal control policies and supervision thereof
- Perform quarterly reviews of the implementation of the action plan amending where necessary
- Review actual financial performance against budget
- Review and approve marketing, organisational and administrative matters
- Review and approve capital and project expenditure above the Chairman's authority
- Review and approve the Investment policy recommending to the Board of Directors any required amendments
- Approve certain investments in line with the Investment policy
- Review the Executive Management Team's quarterly performance report of the Investment portfolio
- Approve the asset class allocation of the Investment portfolio
- Ensure compliance with Central Bank of Kuwait's investment instructions and regulations
- Delegate 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
- Submit semi annual performance reports of the Investment portfolio to the Board of Directors

The Board Loan Committee
- Review and approve the Credit policy and proposed amendments by the Credit Committee or Risk Management in accordance with Central Bank of Kuwait instructions
- Review and approve Country credit limits for credit, investment and treasury
- Review and approve foreign exchange limits within the Central Bank of Kuwait limits
- Review and approve bank counterparty limits
- Review and approve new and renewed credit facilities based on the Credit Committees recommendations and within Central Bank of Kuwait limits
- Review and approve refunds, the reversal of interest and fees, off balance sheet transactions, write off of debts and the extension of credit limits as set out in the Credit policy and within Central Bank of Kuwait instructions
- Review and approve credit facilities offered to members of the Board of Directors ensuring compliance with Central Bank of Kuwait 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 and authority
- 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 and recommend remuneration to be approved by the Chairman
- 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

Following to the election of the new board in 2010 and the election in 2011 the composition of the Board of Directors is as follows:

- Ali Yousef Al Awadhi - Chairman
- Anoud Fadil Al Hathran - Deputy Chairman
- Ahmad Mohammed Al Mishari
- Bader Sulaiman Al Ahmad
- Tareq Farid Al Othman
- Salem Ali Hassan Al Ali
- Majed Ali Owaid Awad

FINANCIAL REVIEW

2011 Statement of Income

The profit attributable to Shareholders of the Parent Bank for the year is KD 0.810 million.

Net interest income of KD 91.6 million was KD 3.7 million or 4% higher than 2010. The average yield on interest earning assets declined to 3.99% from 4.15% in 2010. The average cost on interest bearing liabilities fell to 1.30% down from the 1.61% of 2010. The bank's net spread was 2.68% and the net interest margin was 2.76%.

Net gains from dealing in foreign currencies increased by KD 0.7 million or 15%. Dividend income of KD 3.2 million was up 61% on 2010.

Staff expenses decreased KD 1.6 million or 9% on 2010. General and administration expenses for 2011 were slightly up on 2010.

The charge for Impairment and other provisions for credit facilities and investments was KD 100.4 million for 2011, an increase compared to the KD 51.2 million of 2010.

The Bank continues to enforce a strict credit policy and complies fully with the Central Bank of Kuwait provisioning requirements. Total provision cover for 2011, including general provisions, was 92% of non-performing loans. Non-performing loans decreased KD 243.6 million to KD 154.0 million.

2011 Balance Sheet

Total assets increased by KD 91.7 million or 2% on 2010 with an increase in Due from banks and other financial institutions and Investment securities.

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 18.58% and comfortably exceeds the minimum 12% requirement of the Central Bank of Kuwait.

Dividends and Proposed Appropriations

The Net profit for the year attributable to shareholders of the Parent Bank of KD 810,000 will be retained.

1. No dividend is proposed (2010: 15 fils) as recommended by the Board of Directors. This is subject to approval by the Shareholders at the Annual General Meeting.

2. Nil 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.

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

Introduction

We have audited the accompanying consolidated financial statements of Commercial Bank of Kuwait S.A.K ("the Parent Bank") and subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year 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 adopted for use by the State of Kuwait, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstements, whether due to fraud or error.

Auditor's 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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, 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 materials respects, the financial position of the Group as of 31 December 2011 and of its financial performance and its cash flows for the year then 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 Parent Bank and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements are in accordance therewith. We further report that we obtained all information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporated 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, and by the Parent Bank's Article 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 2005, Commercial Companies Law 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2011 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 audit, 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 2011.

Jassim Ahmad Al-Fahad
License No 53A
Deloitte & Touche
Al-Fahad, Al Wazzan & Co.

Dr. Shuaib A. Shuaib
License No 33A
RSM Albazie & Co.

12 January 2012
Kuwait

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2011

	Note	2011 KD 000's	2010 KD 000's
ASSETS			
Cash and short term funds	3	**198,470**	208,353
Treasury and Central Bank bonds	4	**484,036**	500,584
Due from Banks and other financial institutions	5	**405,989**	222,682
Loans and advances	6	**2,161,007**	2,348,354
Investment securities	7	**394,100**	278,409
Investment in associate	8	**9,691**	8,924
Premises and equipment		**26,152**	24,652
Goodwill and intangible assets	9	**18,226**	18,372
Other assets	10	**16,621**	12,273
TOTAL ASSETS		**3,714,292**	3,622,603
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Banks and other financial institutions	11	**886,520**	806,332
Customer deposits	12	**2,253,965**	2,272,578
Other liabilities	13	**42,418**	57,643
Total liabilities		**3,182,903**	3,136,553
EQUITY			
Equity attributable to shareholders of the Parent Bank			
Share capital		**127,202**	127,202
Treasury shares		**(75)**	(75)
Reserves		**289,206**	225,479
Retained earnings		**114,143**	113,333
		530,476	465,939
Proposed dividend		**-**	19,079
		530,476	485,018
Non-controlling interests		**913**	1,032
Total Equity		**531,389**	486,050
TOTAL LIABILITIES AND EQUITY		**3,714,292**	3,622,603

These consolidated financial statements have been approved for issue by the Board of Directors on 12 January 2012 and signed on their behalf by:

Ali Yousef Al Awadhi
Chairman

Elham Y. Mahfouz

Elham Yousry Mahfouz
Acting CEO

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED 31 DECEMBER 2011

	Note	2011 KD 000's	2010 KD 000's
Interest income	15	**132,168**	137,506
Interest expense	16	**(40,564)**	(49,654)
NET INTEREST INCOME		**91,604**	87,852
Fees and commissions		**27,470**	27,468
Fund management fees		**699**	1,043
Net gain from dealing in foreign currencies		**5,301**	4,590
Net loss from investment securities	17	**(175)**	(126)
Dividend income		**3,184**	1,975
Share of results of associate	8	**780**	217
Other operating income	18	**1,020**	824
OPERATING INCOME		**129,883**	123,843
Staff expenses		**(16,261)**	(17,822)
General and administration expenses		**(11,600)**	(11,187)
Depreciation & amortisation		**(753)**	(1,225)
OPERATING EXPENSES		**(28,614)**	(30,234)
OPERATING PROFIT BEFORE PROVISIONS		**101,269**	93,609
Impairment and other provisions	19	**(100,407)**	(51,174)
PROFIT BEFORE TAXATION		**862**	42,435
Taxation	20	**(9)**	(1,900)
NET PROFIT FOR THE YEAR		**853**	40,535
Attributable to:			
Shareholders of the Parent Bank		**810**	40,452
Non-controlling interests		**43**	83
		853	40,535
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	21	**0.6**	31.8

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2011

	2011 KD 000's	2010 KD 000's
Net profit for the year	**853**	40,535
OTHER COMPREHENSIVE INCOME		
Changes in fair value of investment securities	**61,123**	4,613
Net gain (loss) on disposal / impairment of investment securities	**1,147**	937
Property revaluation loss	**1,368**	(754)
Share of other comprehensive income of an associate	**(13)**	(36)
	63,625	4,760
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**64,478**	45,295
Attributable to:		
Shareholders of the Parent Bank	**64,537**	45,079
Non-controlling interests	**(59)**	216
	64,478	45,295

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2011

	KD 000's													
	Attributable to shareholders of the Parent Bank													
			Reserves											
	Share Capital	Treasury Shares	Share Premium	Statutory Reserve	General Reserve	Treasury Shares Reserve	Property Revaluation Reserve	Investment Valuation Reserve	Total Reserve	Retained Earnings	Proposed Dividend	Total	Non-controlling Interests	Total
Balance as at 1 January 2010	127,202	(75)	66,791	63,601	17,927	45,603	21,558	5,372	220,852	91,960	-	439,939	816	440,755
Total comprehensive income for the year	-	-	-	-	-	-	(754)	5,381	4,627	40,452	-	45,079	216	45,295
Proposed dividend (note 14)	-	-	-	-	-	-	-	-	-	(19,079)	19,079	-	-	-
Balance as at 31 December 2010	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**20,804**	**10,753**	**225,479**	**113,333**	**19,079**	**485,018**	**1,032**	**486,050**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**1,368**	**62,359**	**63,727**	**810**	**-**	**64,537**	**(59)**	**64,478**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,079)**	**(19,079)**	**(60)**	**(19,139)**
Balance as at 31 December 2011	**127,202**	**(75)**	**66,791**	**63,601**	**17,927**	**45,603**	**22,172**	**73,112**	**289,206**	**114,143**	**-**	**530,476**	**913**	**531,389**

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2011

	Note	2011 KD 000's	2010 KD 000's
OPERATING ACTIVITIES			
Profit before taxation		**862**	42,435
Adjustments for:			
Impairment and other provisions	19	**100,407**	51,174
Income from investment securities		**(3,009)**	(1,849)
Foreign exchange gain on investment securities		**(1,013)**	(342)
Depreciation and amortisation		**753**	1,225
Other adjustments		**-**	(54)
Share of results from an associate	8	**(780)**	(217)
Profit before changes in operatiing assets and liabilities		**97,220**	92,372
Changes in operating assets and liabilities:			
Treasury and Central Bank bonds		**16,548**	(139,239)
Due from Banks and other financial institutions		**(183,307)**	53,935
Loans and advances		**82,297**	15,261
Other assets		**(4,360)**	16,001
Due to Banks and other financial institutions		**80,188**	(237,682)
Customer deposits		**(18,613)**	230,669
Other liabilities		**(3,104)**	(12,368)
Net cash from operating activities		**66,869**	18,949
INVESTING ACTIVITIES			
Proceeds from disposal of investment securities		**57,254**	46,930
Acquisition of investment securities		**(117,310)**	(106,858)
Investment in an associate		**-**	(5,022)
Dividend income from investment securities		**3,184**	1,975
Proceeds from disposal of premises and equipment		**2**	886
Acquisition of premises and equipment		**(743)**	(1,165)
Net cash used in investing activities		**(57,613)**	(63,254)
FINANCING ACTIVITIES			
Dividend paid		**(19,079)**	-
Dividend paid to non-controlling interest		**(60)**	-
Net cash used in financing activities		**(19,139)**	-
Net decrease in cash and short term funds		**(9,883)**	(44,305)
Cash and short term funds as at 1 January		**208,353**	252,658
Cash and short term funds as at 31 December	3	**198,470**	208,353

The attached notes 1 to 30 form part of these consolidated financial statements.

1 INCORPORATION AND REGISTRATION

The Commercial Bank of Kuwait S.A.K (the "Parent Bank") is a public shareholding company incorporated in the State of Kuwait and is registered as a bank with the Central Bank of Kuwait (CBK) and listed on the Kuwait Stock Exchange (KSE). The address of the registered office of the Parent Bank is P.O. Box 2861, 13029 Safat, State of Kuwait.

The principal activities of the Group are explained in note 27.

The Parent Bank and its subsidiaries are together referred to as "the Group" in these consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted for use by the State of Kuwait for financial services institutions regulated by the CBK. These regulations require adoption of all IFRS except for the International Accounting Standards (IAS) 39 requirement for collective provision, which has been replaced by the CBK's requirement of a minimum general provision as disclosed in accounting policy of "impairment of financial assets".

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

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

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

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the adoption of the following new and amended IASB Standards issued and effective during the year:

i) IAS 24: Related Party Disclosures - (Amended) effective 1 January 2011
ii) IAS 32: Financial Instruments: Presentation - (Amended) effective 1 February 2010
iii) Improvements to IFRSs (May 2010)

The major changes in the new and amended standards are as follows:

i) IAS 24: Related Party Disclosures - (Amended): The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the consolidated financial position or performance of the Group.

ii) IAS 32: Financial Instruments: Presentation - (Amended): The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the consolidated financial position or performance of the Group.

iii) Improvements to IFRSs (May 2010): In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the consolidated financial position or performance of the Group.

- IAS 1: Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group provides such analysis in the consolidated statement of changes in equity and notes to the consolidated financial statements.

The application of other IASB Standards and amendments did not have material impact on the consolidated financial statements of the Group.

The following IASB Standards have been issued / amended but not yet mandatory, and have not been early adopted by the Group:

i) IFRS 7: Amendment to Financial Instruments: Disclosures: Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)
ii) IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)
iii) IFRS 10: Consolidated Financial Statements (effective 1 January 2013)
iv) IFRS 11: Joint Arrangements (effective 1 January 2013)
v) IFRS 12: Disclosure of Involvement with Other Entities (effective 1 January 2013)
vi) IFRS 13: Fair Value Measurement (effective 1 January 2013)
vii) IAS 1: Presentation of Financial Statements: Presentation of items of other comprehensive income (effective 1 July 2012)
viii) IAS 27: Amendment to Separate Financial Statements (effective 1 January 2013)

ix) IAS 28: Amendment to Investments in Associates (effective 1 January 2013)
x) IAS 12: Amendment to Income Taxes: Recovery of Underlying Assets (effective 1 January 2012)

The major changes in the new and amended standards are as follows:

i) IFRS 7: Financial Instruments Disclosures: Enhanced Derecognition Disclosure Requirements: The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the consolidated financial position or performance of the Group.

ii) IFRS 9: Financial Instruments: Classification and Measurement as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The application of IFRS 9 is under local regulatory review for adoption in the state of Kuwait.

iii) IFRS 10: Consolidated Financial Statements: IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

iv) IFRS 13: Fair Value Measurement: IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the consolidated financial position or performance of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

v) IAS 1: Presentation of Financial Statements: Presentation of items of Other Comprehensive Income: The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the consolidated financial position or performance of Group. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

vi) IAS 27: Separate Financial Statements: As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Adoption of other IASB Standards will not have material effect on the consolidated financial position or performance of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

(b) Basis of consolidation

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

i) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group 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 these consolidated financial statements on a line-by-line basis, from the date on which the control is transferred to the Group until the date that such control ceases.

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

Non-controlling interests represents the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Bank. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity. Losses within a subsidiary are attributed to the non controlling interests even if that results in a deficit balance.

ii) Associates

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

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associates recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment annually.
Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

(c) Business Combinations

A business combination is the bringing together of separate entities or businesses into one. The acquisition of subsidiaries is accounted for using the acquisition 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. Acquisition related costs are recognised in the consolidated statement of income as incurred. 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 lower of carrying amount or fair value less costs to sell.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of income.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

i) Derecognises the assets (including goodwill) and liabilities of the subsidiary
ii) Derecognises the carrying amount of any non controlling interest
iii) Derecognises the cumulative translation differences, recorded in equity
iv) Recognises the fair value of the consideration received
v) Recognises the fair value of any investment retained
vi) Recognises any surplus or deficit in profit or loss

vii)Reclassifies the Parent Bank share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

(d) Cash and short term funds

Cash and short term funds comprise cash in hand and current accounts with banks, balances with the CBK 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, 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, 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 other comprehensive income in the consolidated statement of comprehensive income. When the "available for sale" financial asset is disposed of or impaired, any prior fair value adjustments earlier reported in the consolidated statement of comprehensive income are transferred to the consolidated statement of income.

(ii) Financial liabilities

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

(iii) Recognition and de-recognition

A financial asset is derecognised

1) when the contractual rights to the cash flows from the financial asset expire or;
2) when the Group has transferred substantially all the risks and rewards of ownership or;
3) 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.

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between trade date and settlement date are recognized 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 and transferred the consolidated statement of income when the hedge transaction affects the consolidated statement of income. The gain or loss relating to any ineffective portion is recognised immediately in the consolidated statement of income. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity. When the forecast transaction is no longer expected to occur, the cumulative gain / loss is transferred to 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 financial position. The resultant gains and losses are included in the consolidated statement of income.

(v) Financial guarantees

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, guarantees and acceptances on behalf of its customers. Financial guarantees are initially recognised as a liability in the consolidated statement of financial position at fair value, being the fee and commission received. 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 net 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 CBK's regulations.

(vii) Offsetting financial instruments

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

(viii) Fair values

For financial instruments traded in an active 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 or net asset value.

The fair value of interest bearing financial instruments which are not traded in an active market is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics and dealer price quotations. 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.

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

(ix) Amortised cost

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

(x) Impairment of financial assets

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

i) assets carried at amortised cost
A) debit balance in the current account has been constantly showing an excess of 10% of the borrower's overdraft limit;
(B) debit balance without an authorised limit, irrespective of the value of such a debit balance;
(C) credit facilities have expired and have not been renewed or extended in light of the outcome of the borrower's financial position;
(D) installments of the loan have not been repaid on their respective due dates;
(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 for financial assets carried at amortised cost such as loans and advances, is measured 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. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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 addition, in accordance with the CBK'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.

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

ii) Financial assets classified as available for sale

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

(f) Premises and equipment

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

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

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

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

(g) Goodwill and other intangible assets

Goodwill arising in a business combination is recognised as of the acquisition date as the excess of:

i) the aggregate of the consideration transferred, the fair value of any non-controlling interests in the acquiree measured at the non controlling interest's proportionate share of the acquiree's identifiable net assets and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over

ii) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured at their fair values.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

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 but tested for impairment annually and whenever there is an indication that the asset may be impaired. Intangible assets which have a finite life are amortized over their useful lives.

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

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

(h) Treasury shares

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

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

(i) Revenue recognition

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

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

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

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

(j) Foreign currencies

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

In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign currency exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the income statement, foreign currency exchange differences are recognised in the consolidated statement of income.

(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 date of consolidated statement of financial position. The Group considers this to be a reliable approximation of the present value of this obligation.

(l) Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

(m) Fiduciary assets

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

(n) Significant accounting judgments and estimates

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

Judgments

Classification of investments

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

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

Impairment of investments

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

Estimates

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

Impairment losses on loans and advances and investment in debt instruments

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

Valuation of unquoted equity investments

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

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

Impairment of goodwill and other intangible assets

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

3 CASH AND SHORT TERM FUNDS

	2011 KD 000's	2010 KD 000's
Cash and cash items	**45,512**	38,185
Balances with the CBK	**6,412**	8,398
Deposits with banks maturing within seven days	**146,546**	161,770
	198,470	208,353

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

4 TREASURY AND CENTRAL BANK BONDS

	2011 KD 000's	2010 KD 000's
Treasury bonds	**245,344**	262,911
Central Bank bonds	**238,692**	237,673
	484,036	500,584

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

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

5 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Classification

	2011 KD 000's	2010 KD 000's
Due from banks and other financial institutions are classified as "loans and receivables".		
Placements with banks	**398,499**	182,167
Loans and advances to banks	**1,327**	30,803
Amounts due from other financial institutions	**6,183**	25,133
	405,989	238,103
Less: Provision for impairment	**-**	(15,421)
	405,989	222,682

(b) Non-performing loans

At 31 December 2011 non-performing loans and advances to banks amounted to KD nil thousand (2010: KD 29,464 thousand), split between facilities granted pre-invasion and post liberation as follows :

	2011 KD 000's			2010 KD 000's		
	Loan Balance	Of which Secured	Available Provision	Loan Balance	Of which Secured	Available Provision
Granted prior to the invasion of Kuwait in 1990	-	-	-	4,194	-	4,194
Granted after the liberation of Kuwait in 1991	-	-	-	25,270	14,043	11,227
	-	-	-	29,464	14,043	15,421

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 2011	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	**227,189**	**5,289**	**-**	-	-	**232,478**
Construction and real estate	**683,205**	**-**	**1**	-	-	**683,206**
Other financial institutions	**211,328**	**-**	**-**	-	-	**211,328**
Retail customers	**403,181**	**-**	**-**	-	-	**403,181**
Others	**772,322**	**101**	**-**	-	-	**772,423**
	2,297,225	**5,390**	**1**	**-**	**-**	**2,302,616**
Less: Provision for impairment						**(141,609)**
						2,161,007

	KD 000's					
As at 31 December 2010	**Kuwait**	**Asia**	**Europe**	**USA**	**Others**	**Total**
Trade and commerce	341,025	23,059	-	-	-	364,084
Construction and real estate	691,600	14,707	4	1	-	706,312
Other financial institutions	308,617	-	6	-	-	308,623
Retail customers	403,912	-	-	-	-	403,912
Others	778,124	20,506	9	30	90	798,759
	2,523,278	58,272	19	31	90	2,581,690
Less: Provision for impairment						(233,336)
						2,348,354

(b) Movement in provisions for loans and advances

	2011 KD 000's			2010 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
Provisions 1 January	**156,636**	**73,538**	**230,174**	210,486	75,036	285,522
Written-off	**(198,115)**	**-**	**(198,115)**	(103,278)	-	(103,278)
Exchange differences	**(586)**	**-**	**(586)**	2,703	-	2,703
Recoveries	**4,913**	**-**	**4,913**	1,972	-	1,972
Ceded to Central Bank	**(9)**	**-**	**(9)**	(40)	-	(40)
Charged / (released) to consolidated statement of income	**83,959**	**21,091**	**105,050**	44,793	(1,498)	43,295
Provisions 31 December	**46,798**	**94,629**	**141,427**	156,636	73,538	230,174

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 CBK.

The specific and general provision for cash credit facilities amounting to KD 141,427 thousand (2010: KD 230,174 thousand) also includes an additional provision amounting to KD 66,973 thousand (2010: KD 41,510 thousand) which is over and above the CBK's minimum general provision requirements. The Group has also suspended interest amounting to KD 182 thousand (2010: KD 3,162 thousand) on impaired loans. The available provision for non-cash credit facilities of KD 5,595 thousand (2010: KD 17,572 thousand) is included in other liabilities.

(c) Non-performing loans

At 31 December 2011 non-performing loans and advances amounted to KD 154,004 thousand (2010: KD 397,643 thousand), split between facilities granted pre-invasion and post liberation as follows :

	2011 KD 000's			2010 KD 000's		
	Loan Balance	**Of which Secured**	**Available Provision**	**Loan Balance**	**Of which Secured**	**Available Provision**
Granted after the liberation of Kuwait in 1991	**154,004**	**82,789**	**46,980**	397,643	159,709	159,798

7 INVESTMENT SECURITIES

	2011 KD 000's	2010 KD 000's
At fair value through statement of income		
Equity securities-quoted	**4**	588
Loans and receivables		
Debt securities-unquoted	**-**	1,407
Available for sale		
Debt securities-quoted	**34,949**	20,275
Debt securities-unquoted	**21,448**	22,407
Equity securities-quoted	**279,921**	180,852
Equity securities-unquoted	**46,711**	35,136
Others	**11,067**	17,744
	394,100	278,409

During the year, the Group recognised an unrealised gain of KD 61,123 thousand (2010: KD 4,613 thousand) in the consolidated statement of comprehensive income as arising from changes in fair value and re-cycled accumulated fair valuation changes of KD 1,147 thousand (2010: KD 937 thousand) to the consolidated statement of income on disposal of "available for sale" investment securities. Impairment loss of KD 7,475 thousand (2010: KD 9,402 thousand) was also charged to the consolidated statement of income.

Fair value of securities of KD 314,874 thousand (2010: KD 214,591 thousand) are based on observable market information. Fair values of unquoted securities and others amounting to KD 43,404 thousand (2010: KD 41,834 thousand) are based on valuation techniques. The impact on the consolidated statement of financial position or the consolidated statement of changes in equity would be immaterial, if the relevant risk variables used to determine fair values for the unquoted securities were altered by 5%.

It was not possible to reliably measure the fair value of unquoted securities and others amounting to KD 35,822 thousand (2010: KD 21,984 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.

Investment securities include 348,483,589 shares carried at a fair value of KD 202,120 thousand that were previously carried at cost of KD 126,504 thousand (31 December 2010: KD 126,504 thousand). The Parent Bank acquired 221,421,095 of these shares at a cost of KD 94,103 thousand in the year 2009 under a transaction executed through the KSE where the counterparty subsequently failed to exercise their buy back option within the agreed time frame. During 2010, the Parent Bank participated in the rights issue and acquired 127,062,494 shares at a cost of KD 32,401 thousand. As at the reporting date, the Parent Bank holds the title of the underlying shares. The counterparty raised a legal case challenging the Parent Bank's ownership that is currently pending at the court of law. On the basis of legal counsel, management believes that they have a meritorious defense and accordingly the Parent Bank has fair valued the investment and recognised the resultant fair valuation gain in the Investment Valuation Reserve.

8 INVESTMENT IN AN ASSOCIATE

The Group owns a 32.26% (2010: 32.26%) interest in Al Cham Islamic Bank S.A, a private bank incorporated in the Republic of Syria engaged in Islamic banking activities.

Summarised financial information of an associate is as follows:

	2011	2010
Share of associates' statement of financial position:	**KD 000's**	**KD 000's**
Total assets	**26,287**	33,707
Total liabilities	**16,596**	24,783
Net assets	**9,691**	8,924
Share of associates' net revenues and results:		
Net operating income	**1,664**	922
Results for the year	**780**	217

9 GOODWILL AND OTHER INTANGIBLE ASSETS

	2011	2010
	KD 000's	**KD 000's**
Goodwill	**1,765**	1,765
Other intangible assets	**16,461**	16,607
	18,226	18,372

Other intangible assets represent the value of a brokerage license KD 16,185 thousand (2010: KD 16,185 thousand); patents KD 14 thousand (2010: KD 29 thousand) and customer relationship KD 262 thousand (2010: KD 393 thousand). The brokerage license is considered to have an indefinite useful life. As at 31 December 2011, there was no indication of any impairment of this particular asset. The patents and customer relationship are amortised over a period of 5 years.

10 OTHER ASSETS

	2011	2010
	KD 000's	**KD 000's**
Accrued interest receivable	**824**	376
Other receivables	**15,797**	11,897
	16,621	12,273

Other assets are classified as "loans and receivables".

11 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 KD 000's	2010 KD 000's
Due to banks		
Current accounts and demand deposits	**63,389**	9,748
Time deposits	**319,328**	196,315
	382,717	206,063
Deposits from other financial institutions		
Current accounts and demand deposits	**33,398**	53,187
Time deposits	**470,405**	547,082
	503,803	600,269
	886,520	806,332

12 CUSTOMER DEPOSITS

	2011 KD 000's	2010 KD 000's
Current accounts and demand deposits	**375,578**	310,374
Saving accounts	**389,818**	287,952
Call deposits	**21,652**	23,485
Time deposits	**1,466,917**	1,650,767
	2,253,965	2,272,578

13 OTHER LIABILITIES

	2011 KD 000's	2010 KD 000's
Accrued interest payable	**9,345**	13,365
Deferred income	**4,007**	1,223
Provision for non-cash facilities & others	**8,712**	20,911
Staff related accruals	**1,738**	1,369
Others	**18,616**	20,775
	42,418	57,643

14 EQUITY

(a) Share capital

The share capital comprises of 1,272,022,346 (2010: 1,272,022,346) authorized, subscribed and fully paid ordinary shares of 100 fils each. For detailed qualitative disclosure on capital management, please refer to note III "Capital adequacy" of the Public Disclosures on Capital Adequacy Standard.

(b) Treasury shares

	2011	2010
Number of treasury shares	**70,000**	70,000
Percentage of treasury shares	**0.01**	0.01
Cost of shares (KD 000's)	**75**	75
Fair value of shares (KD 000's)	**55**	64

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

(c) Share premium

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

(d) Statutory and general reserves

In accordance with the Commercial Companies Law of 1960 and the Parent Bank's Articles of Association, the Parent Bank has resolved not to transfer any amount to statutory reserve as the statutory reserve is reach to 50% of the share capital.

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

The general reserve was created in accordance with the Parent Bank's Articles of Association and is available for distribution. During the year 2011 and 2010 there were no transfers to general reserve.

(e) Treasury shares reserve

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

(f) Property revaluation reserve

Annual general meeting of the shareholders' held on 23 March 2011 approved to distribute cash dividend of 15% (15 fils per share) for the year 2010 (2009: nil) to the shareholders' registered in the Parent Bank's records as of the date of the annual general meeting.

15 INTEREST INCOME

	2011 KD 000's	2010 KD 000's
Loans and advances to banks and customers	**118,514**	126,978
Interbank transactions and placements	**4,314**	3,719
Bonds and other investments	**9,340**	6,809
	132,168	137,506

Interest income includes a release of KD 751 thousand (2010: KD 1,956 thousand) due to adjustments arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the year 2007 and 2008, as per Central Bank circulars 2/202BS RSA/2007 dated February 13, 2007 and 2/105 dated April 23, 2008.

16 INTEREST EXPENSE

	2011 KD 000's	2010 KD 000's
Customer deposits	**(30,153)**	(34,320)
Financial institution deposits	**(8,415)**	(13,584)
Interbank transactions and deposits	**(1,996)**	(1,750)
	(40,564)	(49,654)

17 NET LOSS FROM INVESTMENT SECURITIES

	2011 KD 000's	2010 KD 000's
Unrealised gain on investments at fair value through statement of income	**-**	6,157
Realised loss on sale of investments at fair value through statement of income	**(310)**	(6,589)
Realised gain on sale of investments classified as available for sale	**135**	306
	(175)	(126)

18 OTHER OPERATING INCOME

	2011 KD 000's	2010 KD 000's
Communication recoveries	**721**	753
Others	**299**	71
	1,020	824

19 IMPAIRMENT AND OTHER PROVISIONS

	2011 KD 000's	2010 KD 000's
The following amounts were (charged) / released to the consolidated statement of income:		
Loans and advances - specific	**(83,959)**	(43,749)
Loans and advances - general	**(21,091)**	1,498
Investment securities	**(7,475)**	(9,402)
Non cash facilities	**11,976**	(49)
Other provisions	**142**	528
	(100,407)	(51,174)

20 TAXATION

	2011 KD 000's	2010 KD 000's
National Labour Support Tax (NLST)	**-**	(1,060)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)	**(9)**	(424)
Zakat	**-**	(416)
	(9)	(1900)

The Group calculates the NLST in accordance with Law No.19 of 2000 and the Ministry of Finance Resolutions No.24 of 2006 at 2.5% of taxable profit for the year.

The Group calculates the contribution to KFAS at 1% of profit for the year, in accordance with the calculation based on the Foundation's Board of Directors resolution, which states that the Board of Directors' remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

Contribution to Zakat is calculated at 1% of the profit of the Group in accordance with Law No. 46 of 2006 and the Ministry of Finance resolution No. 58/2007.

21 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit for the year attributable to shareholders of the Parent Bank by the weighted average number of shares outstanding during the year.

	2011	2010
Net profit for the year attributable to shareholders of the Parent Bank (KD 000's)	**810**	40,452
Weighted average of authorised and subscribed shares (numbers in 000's)	**1,272,022**	1,272,022
Less: Weighted average of treasury shares held (numbers in 000's)	**(70)**	(70)
	1,271,952	1,271,952
Basic and diluted earnings per share attributable to shareholders of the Parent Bank (fils)	**0.6**	31.8

22 SUBSIDIARIES

Name of entities	Country of incorporation	Principal business	% of Ownership 2011	2010
Al Tijari Investment Company K.S.C (Closed)	Kuwait	Investment Banking	**100%**	100%
Union Securities Brokerage Company K.S.C (Closed)	Kuwait	Brokerage Services	**80%**	80%

23 RELATED PARTY TRANSACTIONS

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

	2011			2010		
	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	**-**	**-**	**-**	-	-	-
Credit cards	**1**	**-**	**5**	1	-	1
Deposits	**6**	**-**	**116**	4	-	59
Executive Management						
Loans	**8**	**-**	**80**	6	1	119
Credit cards	**6**	**5**	**3**	11	5	1
Deposits	**12**	**11**	**560**	12	22	1,861

The loans issued to directors, key management personnel and related members are repayable within 5 years and have interest rates of 0% to 1.5% (2010: 0% to 6%).

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

	2011 KD 000's	2010 KD 000's
Salaries and other short-term benefits	**(790)**	(921)
Post employment benefits	**(17)**	(20)
Termination benefits	**(78)**	(121)

24 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The techniques and assumptions used to determine fair values of financial instruments are described in the fair value section of note 2: "Significant Accounting Policies".

25 FINANCIAL INSTRUMENTS

(a) Strategy in using financial instruments

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

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

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 date of consolidated statement of financial position without taking account of any collateral and other credit enhancements.

	2011	2010
Credit exposure relating to on-balance sheet items	**KD 000's**	**KD 000's**
Cash and short term funds	**198,470**	208,353
Treasury and Central Bank bonds	**484,036**	500,584
Due from banks and OFIs	**405,989**	238,103
Loans and advances - Corporate	**1,899,435**	2,177,778
Loans and advances - Retail	**403,181**	403,912
Debt securities	**56,397**	44,089
Other assets	**16,621**	12,273
	3,464,129	3,585,092
Credit exposure relating to off-balance sheet items		
Acceptances	**82,826**	49,599
Letters of credit	**194,571**	155,234
Letters of guarantee	**860,491**	890,784
Others	**35,953**	37,333
	1,173,841	1,132,950
	4,637,970	4,718,042

The primary purpose of off balance sheet financial instruments is to ensure that funds are available to customers 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 2011						
Loans and advances - Corporate	**12,092**	**1,072,157**	**662,383**	**7,251**	**144,821**	**83,090**
Loans and advances - Banks	**-**	**-**	**1,327**	**-**	**-**	**-**
Loans and advances - Retail	**-**	**-**	**357,179**	**37,550**	**9,183**	**62**
	12,092	**1,072,157**	**1,020,889**	**44,801**	**154,004**	**83,152**
As at 31 December 2010						
Loans and advances - Corporate	238	298,328	1,395,332	104,113	379,767	159,709
Loans and advances - Banks	-	-	1,339	-	29,464	14,043
Loans and advances - Retail	-	-	372,434	13,602	17,876	-
	238	298,328	1,769,105	117,715	427,107	173,752

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 financial institution 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

	2011 KD 000's		2010 KD 000's	
Geographic sector	**Assets**	**Off Balance Sheet**	**Assets**	**Off Balance Sheet**
Kuwait	**3,143,540**	**901,458**	3,285,376	934,710
Asia	**327,182**	**203,501**	212,710	121,347
Europe	**197,117**	**66,603**	61,449	73,004
USA	**2,075**	**151**	19,954	2,774
Others	**-**	**2,128**	90	1,115
	3,669,914	**1,173,841**	3,579,579	1,132,950

Industry sector	2011 KD 000's Assets	2011 KD 000's Off Balance Sheet	2010 KD 000's Assets	2010 KD 000's Off Balance Sheet
Government	**484,035**	**-**	500,584	-
Trade and commerce	**218,132**	**158,290**	325,261	217,124
Construction and real estate	**670,412**	**504,940**	675,324	588,608
Banks and financial institutions	**1,187,798**	**229,595**	983,162	91,539
Others	**1,109,537**	**281,016**	1,095,248	235,679
	3,669,914	**1,173,841**	3,579,579	1,132,950

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

In the ordinary course of business the Group 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					
		Notional amount by term maturity				
As at 31 December 2011	**Fair value**	**Up to1 Month**	**1 to 3 Months**	**3 to 12 Months**	**Over 1 Year**	**Total**
Foreign exchange contracts - forward	**5,343**	**299,170**	**103,029**	**-**	**-**	**402,199**
Option	**237**	**-**	**3,281**	**-**	**-**	**3,281**
	5,580	**299,170**	**106,310**	**-**	**-**	**405,480**

KD 000's

As at 31 December 2010	Fair value	Notional amount by term maturity Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Total
Foreign Exchange Contracts Forward	(123)	57,685	3,471	1,010	-	62,166
Option	-	-	-	-	-	-
	(123)	57,685	3,471	1,010	-	62,166

(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 financial assets and liabilities are as follows:

KD 000's

As at 31 December 2011	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	% Effective rate of Interest
ASSETS							
Cash and short term funds	171,040	-	-	-	27,430	198,470	0 - 2
Treasury and Central Bank bonds	97,838	177,557	208,641	-	-	484,036	1 - 2
Due from banks and OFIs	200,261	179,652	22,624	2,125	1,327	405,989	1 - 4
Loans and advances	1,806,628	39,104	22,020	284,767	8,488	2,161,007	1 - 6
Investment securities	12,164	9,101	9,281	25,934	337,620	394,100	1 - 6
Investment in an associate	-	-	-	-	9,691	9,691	-
Other assets	1,010	299	62	6	15,244	16,621	-
	2,288,941	405,713	262,628	312,832	399,800	3,669,914	

KD 000's

	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	% Effective rate of Interest
LIABILITIES							
Due to banks and OFIs	373,945	95,070	341,110	44,075	32,320	886,520	1 - 3
Customer deposits	887,321	434,290	553,960	2,817	375,577	2,253,965	0 - 3
Other liabilities	2,051	426	544	-	39,397	42,418	-
	1,263,317	529,786	895,614	46,892	447,294	3,182,903	
Total interest rate sensitivity gap	1,025,624	(124,073)	(632,986)	265,940			

KD 000's

As at 31 December 2010	Up to1 Month	1 to 3 Months	3 to 12 Months	Over 1 Year	Non-Interest Sensitive	Total	% Effective rate of Interest
ASSETS							
Cash and short term funds	182,045	-	-	-	26,308	208,353	0 - 2
Treasury and Central Bank bonds	117,374	171,050	212,160	-	-	500,584	1 - 2
Due from banks and OFIs	153,721	66,106	-	-	2,855	222,682	1 - 4
Loans and advances	2,119,789	227,379	-	1,186	-	2,348,354	1 - 7
Investment securities	3,447	6,852	5,125	419	262,566	278,409	1 - 6
Investment in an associate	-	-	-	-	8,924	8,924	-
Other assets	2,332	173	-	-	9,768	12,273	-
	2,578,708	471,560	217,285	1,605	310,421	3,579,579	
LIABILITIES							
Due to banks and OFIs	262,975	73,833	441,956	-	27,568	806,332	1 - 3
Customer deposits	859,172	353,064	742,528	7,440	310,374	2,272,578	0 - 3
Other liabilities	1,150	692	1,407	-	54,394	57,643	-
	1,123,297	427,589	1,185,891	7,440	392,336	3,136,553	
Total interest rate sensitivity gap	1,455,411	43,971	(968,606)	(5,835)			

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

	KD 000's			
	2011		2010	
	Impact on statement of income		Impact on statement of income	
	±@1%	±@2%	±@1%	±@2%
Kuwaiti Dinar	**8,282**	**16,563**	13,463	26,927
US Dollar	**(813)**	**(1,625)**	253	506
Other currencies	**163**	**326**	113	225
	± 7,632	**±15,264**	±13,829	±27,658

(B) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency 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 are as follows:

Net assets (liabilities)	2011 KD 000's	2010 KD 000's
US Dollar	**719**	(3,444)
Euro	**(2,979)**	50
Saudi Riyal	**200**	508
Swiss Franc	**32**	23
UAE Dirham	**448**	245
Sterling Pound	**214**	5
Japanese Yen	**56**	37
Others - assets	**946**	1,171
Others - liabilities	**(18)**	(20)
	(382)	(1,425)

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.

	KD 000's			
As at 31 December 2011	**Kuwaiti dinar**	**US dollar**	**Other currencies**	**Total**
ASSETS				
Cash and short term funds	**95,261**	**35,106**	**68,103**	**198,470**
Treasury and Central Bank bonds	**484,036**	**-**	**-**	**484,036**
Due from banks and OFIs	**123,488**	**85,807**	**196,694**	**405,989**
Loans and advances	**2,062,492**	**71,572**	**26,943**	**2,161,007**
Investment securities	**330,133**	**48,293**	**15,674**	**394,100**
Investment in an associate	**-**	**9,691**	**-**	**9,691**
Other assets	**10,089**	**2,478**	**4,054**	**16,621**
	3,105,499	**252,947**	**311,468**	**3,669,914**
LIABILITIES				
Due to banks and OFIs	**640,054**	**116,707**	**129,759**	**886,520**
Customer deposits	**1,933,856**	**194,930**	**125,179**	**2,253,965**
Other liabilities	**36,668**	**5,464**	**286**	**42,418**
	2,610,578	**317,101**	**255,224**	**3,182,903**
Net on balance sheet financial position	**494,921**	**(64,154)**	**56,244**	**487,011**
Contingent liabilities	**816,144**	**284,115**	**73,582**	**1,173,841**

	KD 000's			
As at 31 December 2010	**Kuwaiti dinar**	**US dollar**	**Other currencies**	**Total**
ASSETS				
Cash and short term funds	45,816	119,374	43,163	208,353
Treasury and Central Bank bonds	500,584	-	-	500,584
Due from banks and OFIs	94,528	98,156	29,998	222,682
Loans and advances	2,170,652	158,837	18,865	2,348,354
Investment securities	240,201	37,522	686	278,409
Investment in an associate	-	8,924	-	8,924
Other assets	11,342	869	62	12,273
	3,063,123	423,682	92,774	3,579,579
LIABILITIES				
Due to banks and OFIs	636,887	146,732	22,713	806,332
Customer deposits	1,923,263	290,652	58,663	2,272,578
Other liabilities	52,515	4,653	475	57,643
	2,612,665	442,037	81,851	3,136,553
Net on balance sheet financial position	450,458	(18,355)	10,923	443,026
Contingent liabilities	840,906	188,389	103,655	1,132,950

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

	KD 000's			
As at 31 December 2011	Impact on statement of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	7	14	476	952
Euro	(30)	(60)	6	12
Saudi Riyal	2	4	-	-
UAE Dirham	4	8	-	-
Qatari Riyal	4	8	-	-
Others	9	18	149	298
	(4)	(8)	631	1,262

	KD 000's			
As at 31 December 2010	Impact on statement of income		Impact on equity	
	@ 1%	@ 2%	@ 1%	@ 2%
US Dollar	(34)	(68)	375	750
Euro	1	2	7	14
Saudi Riyal	5	10	-	-
UAE Dirham	2	4	-	-
Qatari Riyal	1	2	-	-
Others	11	22	-	-
	(14)	(28)	382	764

(C) Equity price risk

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

The effect on the consolidated statement of income and the consolidated statement of changes in equity due to possible changes in equity indices, with all other variables held constant, is as follows:

	KD 000's			
	Impact on statement of income		Impact on equity	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
As at 31 December 2011				
Kuwait Stock Exchange	-	-	2791	5,582
As at 31 December 2010				
Kuwait Stock Exchange	1	2	1,796	3,592

(iii) LIQUIDITY RISK

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

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

	KD 000's					
As at 31 December 2011	**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	198,468	1	1	-	-	198,470
Treasury and Central Bank bonds	483,258	535	243	-	-	484,036
Due from banks and OFIs	202,387	179,657	22,623	-	1,322	405,989
Loans and advances	406,526	553,137	179,990	251,188	770,166	2,161,007
Investment securities	322,320	438	85	13,400	57,857	394,100
Investment in associate	-	-	-	-	9,691	9,691
Premises and equipment	-	-	-	-	26,152	26,152
Goodwill and intangible assets	-	-	-	-	18,226	18,226
Other assets	15,160	304	62	-	1,095	16,621
	1,628,119	734,072	215,869	244,063	884,509	3,714,292
LIABILITIES						
Due to banks and OFIs	388,368	97,891	150,901	203,170	46,190	886,520
Customer deposits	1,280,795	431,469	270,638	270,360	703	2,253,965
Other liabilities	21,031	1,643	2,773	2,136	14,835	42,418
	1,690,194	531,003	424,312	475,666	61,728	3,182,903
Net liquidity gap	(62,075)	203,069	(221,308)	(211,078)	822,781	531,389

KD 000's

As at 31 December 2010	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	208,353	-	-	-	-	208,353
Treasury and Central Bank bonds	499,734	605	245	-	-	500,584
Due from banks and OFIs	142,532	64,769	-	-	15,381	222,682
Loans and advances	550,919	677,842	214,282	242,237	663,074	2,348,354
Investment securities	194,082	519	1,342	1,826	80,640	278,409
Investment in associate	-	-	-	-	8,924	8,924
Premises and equipment	-	-	-	-	24,652	24,652
Goodwill and intangible assets	-	-	-	-	18,372	18,372
Other assets	11,533	170	-	-	570	12,273
	1,607,153	743,905	215,869	244,063	811,613	3,622,603
LIABILITIES						
Due to banks and OFIs	246,415	101,918	204,326	247,926	5,747	806,332
Customer deposits	1,185,570	353,064	429,415	302,817	1,712	2,272,578
Other liabilities	22,344	2,258	5,393	3,812	23,836	57,643
	1,454,329	457,240	639,134	554,555	31,295	3,136,553
Net liquidity gap	152,824	286,665	(423,265)	(310,492)	780,318	486,050

(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 2011						
Contingent Liabilities	**207,657**	**261,920**	**203,745**	**231,502**	**269,017**	**1,173,841**
As at 31 December 2010						
Contingent Liabilities	249,763	199,671	148,080	212,009	323,427	1,132,950

(C) Contractual undiscounted repayment obligations by maturity

	KD 000's					
As at 31 December 2011	**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	**388,441**	**98,108**	**151,921**	**205,827**	**46,917**	**891,214**
Customer deposits	**1,281,035**	**432,483**	**271,877**	**273,243**	**810**	**2,259,448**
Other liabilities	**21,031**	**1,643**	**2,773**	**2,136**	**14,835**	**42,418**
	1,690,507	**532,234**	**426,571**	**481,206**	**62,562**	**3,193,080**

	KD 000's					
As at 31 December 2010	**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	246,474	102,052	205,858	251,485	5,747	811,616
Customer deposits	1,185,965	353,981	432,495	308,300	2,017	2,282,758
Other liabilities	22,344	2,258	5,393	3,812	23,837	57,644
	1,454,783	458,291	643,746	563,597	31,601	3,152,018

26 OPERATIONAL RISK

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

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

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.

27 SEGMENTAL ANALYSIS

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

a) Corporate and Retail banking provides a full range of lending, deposit and related banking services to domestic and international corporate and individual customers

b) Treasury and Investment banking comprises of money market, foreign exchange, treasury bonds, asset management and brokerage services.

Management monitors the operating results of these segments separately for the purpose of making decisions based on key performance indicators.

	KD 000's					
	Corporate & Retail Banking		**Treasury & Investment Banking**		**Total**	
	2011	2010	**2011**	2010	**2011**	2010
Net interest income	**86,542**	85,823	**5,062**	2,029	**91,604**	87,852
Non interest income	**27,826**	26,530	**10,453**	9,461	**38,279**	35,991
Operating income	**114,368**	112,353	**15,515**	11,490	**129,883**	123,843
Impairment and other provisions	**(93,115)**	(42,236)	**(7,292)**	(8,938)	**(100,407)**	(51,174)
Net profit / (loss) for the year	**4,548**	52,439	**(3,695)**	(11,904)	**853**	40,535
Total Assets	**2,207,391**	2,406,377	**1,506,901**	1,216,226	**3,714,292**	3,622,603
Total Liabilities and Equity	**1,279,133**	1,178,258	**2,435,159**	2,444,345	**3,714,292**	3,622,603
Investment in an associate	**-**	-	**9,691**	8,924	**9,691**	8,924

28 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 as at 31 December 2011 is KD 37,280 thousand (2010: KD 62,052 thousand).

(c) Legal claims

At the date of consolidated statement of financial position certain legal claims existed against the Group and for which KD 1,676 thousand (2010: KD 1,898 thousand) has been provided.

29 CAPITAL ADEQUACY

The disclosures relating to Capital Adequacy Regulations issued by CBK as stipulated in 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.

30 COMPARATIVE FIGURES

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

The following detailed qualitative and quantitative public disclosures are being provided in accordance with Central Bank of Kuwait (CBK) 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 Commercial Bank of Kuwait S.A.K (the "Parent Bank") has two subsidiaries, Union Securities Brokerage Company K.S.C. (Closed) - (80% owned) engaged in brokerage services and Al Tijari Investment Company K.S.C. (Closed) - (100% owned) engaged in investment banking activities and owns a 32.26% interest in Al Cham Islamic Bank S.A (an associate), a private bank incorporated in Republic of Syria engaged in islamic banking activities.

The Parent Bank and its subsidiaries are collectively referred to as "the Group".

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

	2011			2010		
Name	**Country**	**Ownership%**	**KD 000's**	**Country**	**Ownership%**	**KD 000's**
Al Safat Takaful Insurance Co.	**Kuwait**	**10.00%**	**190**	Kuwait	10.00%	190

The capital ratio would have been 18.58% (2010: 19.95%) as against 18.58% (2010: 19.96%) 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 2010: 1,272,022,346) authorised, subscribed and fully paid ordinary shares of 100 fils each. As at 31 December 2011, the Parent Bank held 70,000 (.01%) (31 December 2010: 70,000 (.01%)) of its own shares.

PUBLIC DISCLOSURES ON CAPITAL ADEQUACY STANDARD

31 DECEMBER 2011

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

a. Tier 1 capital :	2011 KD 000's	2010 KD 000's
1. Paid-up share capital	**127,202**	127,202
2. Proposed bonus shares	**-**	-
3. Share premium	**66,791**	66,791
4. Statutory reserve	**63,601**	63,601
5. General reserve	**17,927**	17,927
6. Retained earnings	**114,143**	113,333
7. Own share reserve	**45,603**	45,603
8. Minority interests in consolidated subsidiaries	**913**	1,032
9. Goodwill	**(1,765)**	(1,765)
10. Significant minority investments in banking entities	**(9,691)**	(8,924)
11. Surplus capital from insurance companies	**-**	-
12. Treasury Shares	**(75)**	(75)
Total tier 1 capital	**424,649**	424,725

b. Tier 2 capital.	2011 KD 000's	2010 KD 000's
1. Asset revaluation reserve (45% only)	**9,977**	9,362
2. Fair value reserve (45% only with the concurrence of external auditors)	**32,900**	4,839
3. General provisions (subject to a maximum of 1.25% of total credit risk weighted assets)	**32,575**	27,959
Total tier 2 capital	**75,452**	42,160
Total eligible capital	**500,101**	466,885

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 CBK. The Group has in place a framework for planning, assessing and reporting for capital adequacy and to ensure that the present and future operations of the Group are supported by adequate capital at all times. The Group 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

	2011 KD 000's			2010 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
a. Credit risk						
1. Cash items	**27,585**	**-**	**-**	26,313	-	-
2. Claims on sovereigns	**495,518**	**-**	**-**	508,977	-	-
3. Claims on international organisations	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**811,354**	**267,144**	**32,057**	450,907	95,716	11,486
7. Claims on corporates	**1,572,323**	**823,064**	**98,768**	1,714,200	881,176	105,741
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**418,168**	**399,530**	**47,944**	420,564	377,333	45,280
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**107,436**	**57,825**	**6,939**	252,387	147,483	17,698
12. Other assets	**1,488,280**	**992,701**	**119,124**	1,429,340	674,409	80,929
Total	**4,920,644**	**2,540,264**	**304,832**	4,802,688	2,176,117	261,134

	2011 KD 000's			2010 KD 000's		
	Gross exposures	Net weighted assets	Capital requirement	Gross exposures	Net weighted assets	Capital requirement
b. Market risk						
1. Interest rate position risk	**-**	**-**	**-**	-	-	-
2. Equities position risk	**-**	**-**	**-**	122	163	20
3. Foreign exchange risk	**3,005**	**2,003**	**240**	3,195	2,129	255
4. Commodities risk	**-**	**-**	**-**	-	-	-
5. Options	**-**	**-**	**-**	-	-	-
Total	**3,005**	**2,003**	**240**	3,317	2,292	275
c. Operational risk	**125,638**	**149,228**	**17,915**	135,591	160,327	19,239
Total	**5,049,307**	**2,691,495**	**322,987**	4,941,596	2,338,736	280,648

B. Capital ratios

	2011	2010
1. Total capital ratio	**18.58%**	19.96%
2. Tier 1 capital ratio	**15.78%**	18.16%

IV Risk management

a. Risk Governance

The Risk Management division of the Group is an independent and dedicated function reporting to the 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 Group'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 Group.

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 Group 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 of Directors are the apex authority of the Group for approving investments and other executive matters beyond the authority of the management. These include approval of groupwide 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 Group 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 Group has a formal enterprise wide risk management policy, which provides detailed guidelines for a sound framework for enterprise-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 Group's risk appetite. Periodical reporting of risks to various authorities including the ALCO and the Board ensures that the executive management and the Board are continuously kept aware of positions thereby enabling informed decision-making.

The Group has also commenced an enterprise-wide stress test based on simulations in order to analyse the impact of extreme events on the profitability and capital adequacy.

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 Group's risk grading system is a systematic methodology for analysing 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 CBK norms for credit concentration i.e. the maximum limit for credit exposure of any single customer shall not exceed 15% of the Group'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 CBK guidelines which include individual lending limit.

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

c. Market Risk

Market risk is the potential for loss resulting from adverse movements in market related factors such as foreign exchange rates, security prices, interest rates and commodity prices. Market risk exposure for the Group 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 Group also assesses the market risk through internally developed Value at Risk (VaR) measures. VaR is based on historical simulation over the observation period (1 or 5 year period whichever results in higher VaR) and computes the maximum possible loss over a 10-day holding period at the 99th percentile. VaR is measured against internal limits that are in place for maximum tolerance that is allowed separately for foreign exchange and equity trading positions. The VaR model is back-tested annually against actual results to verify its robustness. In addition, internal calculations are performed for capital for market risk including concentrations therein based on the VaR model.

Foreign exchange risks are monitored daily through currency-wise absolute limits as well as stop-loss limits. Overnight 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. Internal tolerance levels such as absolute portfolio size limit, stop loss limits and concentration limits are in place in order to control equity risks in the trading portfolio. However the equity trading portfolio was liquidated at the beginning of 2011. Investments are classified under pre-defined asset categories and are subject to pre-approved limits for such categories. Further, the Group's overall investment capacity as well as individual investments are restricted to stipulated limits and guidelines laid down by CBK.

d. Liquidity Risk

Liquidity risk is the current and prospective risk to earnings and capital arising from the Group'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 Group'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. Detailed methodology for calculation of capital for liquidity risk under pillar two has been introduced. The Group has also assessed the implications of the new global liquidity risk framework introduced by BIS and has identified the strategic actions to be taken to enable adherence to the new ratios.

e. Interest Rate Risk

Interest rate risk arises from changes in interest rates that may have an adverse impact on the Group'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 Group's exposures within the Group. The majority of assets and liabilities of the Group 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 Group's appetite for this risk. In addition, the economic value of equity is required to be analysed under certain pre-defined circumstances. Detailed methodology for calculation of capital for interest rate risk has been introduced.

f. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, systems and people or from external events. The definition includes legal risk, which is the risk of loss resulting from failure to comply with laws, contractual obligations and lack of due diligence in the formulation of documents and contracts. It also includes the exposure to litigation from all aspects of the Group'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 groupwide procedures. An objective scorecard has been introduced that assesses various operational risk areas based on pre-defined parameters and grades them under certain categories. Insurance management which is integrated into this system facilitates prudent transfer of risks. Internally maintained loss data, consolidated principally from incidence reporting channels, provides information on frequency and impact of operational risk events. A groupwide 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.

g. Other risks

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

V Credit exposures

The credit policy of the Group 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 Group 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 consolidated statement of income.

Past due and impaired exposures are defined in accordance with the relevant CBK regulations. Specific and general provisions are computed in accordance with CBK regulations on provisioning as well as the applicable accounting standards. The CBK 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	Up to 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 CBK 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 down 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

	2011 KD 000's			2010 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	**27,585**	**27,585**	**-**	26,313	26,313	-
2. Claims on sovereigns	**495,518**	**495,518**	**-**	508,977	508,977	-
3. Claims on international organisations	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**811,354**	**586,523**	**224,831**	450,907	371,553	79,354
7. Claims on corporates	**1,572,323**	**688,364**	**883,959**	1,714,200	758,263	955,937
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**418,168**	**402,583**	**15,585**	420,564	404,830	15,734
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**107,436**	**107,023**	**413**	252,387	251,888	499
12. Other assets	**1,488,280**	**1,439,227**	**49,053**	1,429,340	1,347,914	81,426
	4,920,664	**3,746,823**	**1,173,841**	4,802,688	3,669,738	1,132,950

b. Average gross credit exposures

	2011 KD 000's			2010 KD 000's		
	Total gross exposures	Funded gross exposures	Unfunded gross exposures	Total gross exposures	Funded gross exposures	Unfunded gross exposures
1. Cash items	**26,949**	**26,949**	**-**	30,729	30,729	-
2. Claims on sovereigns	**502,248**	**502,248**	**-**	457,722	457,722	-
3. Claims on international organisations	**-**	**-**	**-**	-	-	-
4. Claims on PSEs	**-**	**-**	**-**	-	-	-
5. Claims on MDBs	**-**	**-**	**-**	-	-	-
6. Claims on banks	**631,131**	**479,038**	**152,093**	488,316	402,519	85,797
7. Claims on corporates	**1,643,262**	**723,314**	**919,948**	1,670,224	739,107	931,117
8. Claims on securitised assets	**-**	**-**	**-**	-	-	-
9. Regulatory retail	**419,367**	**403,707**	**15,660**	432,420	414,531	17,889
10. RHLs eligible for 35% RW	**-**	**-**	**-**	-	-	-
11. Past due exposure	**179,912**	**179,456**	**456**	254,780	254,339	441
12. Other assets	**1,458,811**	**1,393,571**	**65,240**	1,444,453	1,358,738	85,715
	4,861,680	**3,708,283**	**1,153,397**	4,778,644	3,657,685	1,120,959

c. Total credit exposures by geographic sector

As at 31 December 2011	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	**27,430**	**155**	**-**	**-**	**-**	**27,585**
2. Claims on sovereigns	**495,518**	**-**	**-**	**-**	**-**	**495,518**
3. Claims on international organisations	**-**	**-**	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**-**
6. Claims on banks	**76,030**	**482,953**	**216,279**	**1,141**	**34,951**	**811,354**
7. Claims on corporates	**1,517,732**	**25,133**	**29,458**	**-**	**-**	**1,572,323**
8. Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
9. Regulatory retail	**418,168**	**-**	**-**	**-**	**-**	**418,168**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11. Past due exposure	**107,436**	**-**	**-**	**-**	**-**	**107,436**
12. Other assets	**1,467,835**	**5,247**	**13,361**	**1,764**	**73**	**1,488,280**
	4,110,149	**513,488**	**259,098**	**2,905**	**35,024**	**4,920,664**
"Percentage of credit exposure by geographical sector"	**83.5%**	**10.4%**	**5.3%**	**0.1%**	**0.7%**	**100.0%**

As at 31 December 2010	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	508,977	-	-	-	-	508,977
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	115,132	217,827	98,456	3,919	15,573	450,907
7. Claims on corporates	1,585,970	89,066	39,164	-	-	1,714,200
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	419,644	742	145	31	2	420,564
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	234,802	17,585	-	-	-	252,387
12. Other assets	1,404,540	20,621	1,770	2,409	-	1,429,340
	4,295,378	345,841	139,535	6,359	15,575	4,802,688
"Percentage of credit exposure by geographical sector"	89.4%	7.2%	2.9%	0.1%	0.3%	100.0%

d. Funded credit exposures by geographic sector

As at 31 December 2011	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	**27,430**	**155**	-	-	-	**27,585**
2. Claims on sovereigns	**495,518**	-	-	-	-	**495,518**
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	**75,798**	**299,087**	**177,825**	**990**	**32,823**	**586,523**
7. Claims on corporates	**681,557**	**5,498**	**1,309**	-	-	**688,364**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**402,583**	-	-	-	-	**402,583**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**107,023**	-	-	-	-	**107,023**
12. Other assets	**1,418,782**	**5,247**	**13,361**	**1,764**	**73**	**1,439,227**
	3,208,691	**309,987**	**192,495**	**2,754**	**32,896**	**3,746,823**
"Percentage of credit exposure by geographical sector"	**85.6%**	**8.3%**	**5.1%**	**0.1%**	**0.9%**	**100.0%**

As at 31 December 2010	KD 000's					
	Kuwait	Asia	Europe	USA	Others	Total
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	508,977	-	-	-	-	508,977
3. Claims on international organisations	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	115,132	177,685	63,100	1,176	14,460	371,553
7. Claims on corporates	748,346	8,262	1,655	-	-	758,263
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	404,483	341	6	-	-	404,830
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	234,303	17,585	-	-	-	251,888
12. Other assets	1,323,114	20,621	1,770	2,409	-	1,347,914
	3,360,668	224,494	66,531	3,585	14,460	3,669,738
"Percentage of credit exposure by geographical sector"	91.6%	6.1%	1.8%	0.1%	0.4%	100.0%

(e) Unfunded credit exposures by geographic sector

As at 31 December 2011	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	232	183,866	38,454	151	2,128	224,831
7. Claims on corporates	836,175	19,635	28,149	-	-	883,959
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	15,585	-	-	-	-	15,585
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	413	-	-	-	-	413
12. Other assets	49,053	-	-	-	-	49,053
	901,458	203,501	66,603	151	2,128	1,173,841
Percentage of unfunded credit exposure by geographical sector	76.8%	17.3%	5.7%	0.0%	0.2%	100.0%

As at 31 December 2010	Kuwait	Asia	Europe	USA	Others	Total
	KD 000's					
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	-	40,142	35,356	2,743	1,113	79,354
7. Claims on corporates	837,624	80,804	37,509	-	-	955,937
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	15,161	401	139	31	2	15,734
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	499	-	-	-	-	499
12. Other assets	81,426	-	-	-	-	81,426
	934,710	121,347	73,004	2,774	1,115	1,132,950
Percentage of unfunded credit exposure by geographical sector	82.5%	10.7%	6.4%	0.2%	0.1%	100.0%

(f) Total credit exposures by residual maturity

	KD 000's					
As at 31 December 2011	**Up to1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
1. Cash items	**27,585**	**-**	**-**	**-**	**-**	**27,585**
2. Claims on sovereigns	**104,303**	**182,561**	**113,594**	**95,060**	**-**	**495,518**
3. Claims on international org.	**-**	**-**	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**	**-**	**-**
6. Claims on banks	**377,131**	**227,637**	**43,988**	**63,975**	**98,623**	**811,354**
7. Claims on corporates	**290,245**	**361,786**	**296,572**	**208,849**	**414,871**	**1,572,323**
8. Claims on securitised assets	**-**	**-**	**-**	**-**	**-**	**-**
9. Regulatory retail	**5,290**	**6,404**	**4,604**	**6,624**	**395,246**	**418,168**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**	**-**	**-**
11. Past due exposure	**104,162**	**141**	**658**	**2,353**	**122**	**107,436**
12. Other assets	**492,941**	**247,180**	**146,174**	**163,215**	**438,770**	**1,488,280**
	1,401,657	**1,025,709**	**605,590**	**540,076**	**1,347,632**	**4,920,664**
Percentage of total credit exposures by residual maturity	**28.5%**	**20.8%**	**12.3%**	**11.0%**	**27.4%**	**100.0%**

	KD 000's					
As at 31 December 2010	**Up to1 Month**	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Over 1 Year**	**Total**
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	125,802	170,998	112,129	100,048	-	508,977
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	315,305	100,725	5,162	4,388	25,327	450,907
7. Claims on corporates	335,412	320,041	209,827	259,635	589,285	1,714,200
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	4,795	5,034	5,331	6,458	398,946	420,564
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	223,218	28,480	-	646	43	252,387
12. Other assets	506,025	413,557	78,534	135,424	295,800	1,429,340
	1,536,870	1,038,835	410,983	506,599	1,309,401	4,802,688
Percentage of total credit exposures by residual maturity	32.0%	21.6%	8.6%	10.5%	27.3%	100.0%

(g) Funded credit exposures by residual maturity

KD 000's

As at 31 December 2011	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	-	27,585	-	-	-	27,585
2. Claims on sovereigns	182,561	104,303	113,594	95,060	-	495,518
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	197,001	346,585	23,036	-	19,901	586,523
7. Claims on corporates	136,262	116,437	127,696	77,483	230,486	688,364
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	3,342	2,670	2,281	3,670	390,620	402,583
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	141	103,749	658	2,353	122	107,023
12. Other assets	244,482	492,671	134,580	130,008	437,486	1,439,227
	763,789	1,194,000	401,845	308,574	1,078,615	3,746,823
Percentage of funded total credit exposures by residual maturity	20.4%	31.9%	10.7%	8.2%	28.8%	100.0%

KD 000's

As at 31 December 2010	Up to1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Over 1 Year	Total
1. Cash items	26,313	-	-	-	-	26,313
2. Claims on sovereigns	125,802	170,998	112,129	100,048	-	508,977
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	291,668	64,146	-	-	15,739	371,553
7. Claims on corporates	142,222	172,268	70,400	93,702	279,671	758,263
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,188	971	2,772	2,821	396,078	404,830
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	222,719	28,480	-	646	43	251,888
12. Other assets	476,195	402,301	77,602	97,373	294,443	1,347,914
	1,287,107	839,164	262,903	294,590	985,974	3,669,738
Percentage of funded total credit exposures by residual maturity	35.1%	22.9%	7.2%	8.0%	26.9%	100.0%

(h) Unfunded credit exposures by residual maturity

KD 000's

As at 31 December 2011	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	**30,546**	**30,636**	**20,952**	**63,975**	**78,722**	**224,831**
7. Claims on corporates	**173,808**	**225,524**	**168,876**	**131,366**	**184,385**	**883,959**
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**2,620**	**3,062**	**2,323**	**2,954**	**4,626**	**15,585**
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	**413**	-	-	-	-	**413**
12. Other assets	**270**	**2,698**	**11,594**	**33,207**	**1,284**	**49,053**
	207,657	**261,920**	**203,745**	**231,502**	**269,017**	**1,173,841**
Percentage of unfunded total credit exposures by residual maturity	**17.7%**	**22.3%**	**17.4%**	**19.7%**	**22.9%**	**100.0%**

KD 000's

As at 31 December 2010	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	23,637	36,579	5,162	4,388	9,588	79,354
7. Claims on corporates	193,190	147,773	139,427	165,933	309,614	955,937
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	2,607	4,063	2,559	3,637	2,868	15,734
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	499	-	-	-	-	499
12. Other assets	29,830	11,256	932	38,051	1,357	81,426
	249,763	199,671	148,080	212,009	323,427	1,132,950
Percentage of unfunded total credit exposures by residual maturity	22.0%	17.6%	13.1%	18.7%	28.5%	100.0%

(i) Impaired loans by standard portfolio

	2011 KD 000's Gross Debt	2011 KD 000's Specific Provision	2011 KD 000's Net Debt	2010 KD 000's Gross Debt	2010 KD 000's Specific Provision	2010 KD 000's Net Debt
1. Cash items	-	-	-	-	-	-
2. Claims on sovereigns	-	-	-	-	-	-
3. Claims on international org.	-	-	-	-	-	-
4. Claims on PSEs	-	-	-	-	-	-
5. Claims on MDBs	-	-	-	-	-	-
6. Claims on banks	-	-	-	29,464	(15,421)	14,043
7. Claims on corporates	**144,821**	**(41,672)**	**103,149**	379,767	(145,818)	233,949
8. Claims on securitised assets	-	-	-	-	-	-
9. Regulatory retail	**9,183**	**(5,308)**	**3,875**	17,876	(13,980)	3,896
10. RHLs eligible for 35% RW	-	-	-	-	-	-
11. Past due exposure	-	-	-	-	-	-
12. Other assets	-	-	-	-	-	-
	154,004	**(46,980)**	**107,024**	427,107	(175,219)	251,888

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

	2011 KD 000's General Provision	2011 KD 000's Statement of Income	2010 KD 000's General Provision	2010 KD 000's Statement of Income
1. Cash items	-	-	-	-
2. Claims on sovereigns	-	-	-	-
3. Claims on international org.	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	-	-	-	(1,044)
7. Claims on corporates	**75,691**	**94,417**	52,417	42,967
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	**5,099**	**(1,343)**	5,823	377
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	-	-	-	-
12. Other assets	**13,839**	**7,333**	15,298	8,874
	94,629	**100,407**	73,538	51,174

(k) Impaired loans and provisions by geographic sector

As at 31 December 2011	2011 KD 000's Gross Debt	2011 KD 000's Specific Provision	2011 KD 000's Net Debt	2010 KD 000's Gross Debt	2010 KD 000's Specific Provision	2010 KD 000's Net Debt
Kuwait	**154,004**	**(46,980)**	**107,024**	348,977	(111,132)	237,845
Asia	**-**	**-**	**-**	78,130	(64,087)	14,043
Europe	**-**	**-**	**-**	-	-	-
USA	**-**	**-**	**-**	-	-	-
Others	**-**	**-**	**-**	-	-	-
	154,004	**(46,980)**	**107,024**	427,107	(175,219)	251,888

General provision as at 31 December 2011 amounting to KD 94,629 thousand (2010: KD 73,538 thousand) is related to Kuwait.

(l) Movement in provisions

	2011 KD 000's Specific	2011 KD 000's General	2011 KD 000's Total	2010 KD 000's Specific	2010 KD 000's General	2010 KD 000's Total
Provisions 1 January	**175,219**	**73,538**	**248,757**	242,727	75,036	317,763
Write-offs	**(240,984)**	**-**	**(240,984)**	(106,735)	-	(106,735)
Exchange differences	**(866)**	**-**	**(866)**	2,346	-	2,346
Recoveries	**26,311**	**-**	**26,311**	(16,809)	-	(16,809)
Ceded to Central Bank	**(9)**	**-**	**(9)**	(40)	-	(40)
Statement of income	**87,309**	**21,091**	**108,400**	53,730	(1,498)	52,232
Provisions 31 December	**46,980**	**94,629**	**141,609**	175,219	73,538	248,757

(m) Credit exposures after CRM and CCF

	2011 KD 000's		2010 KD 000's	
	Credit Exposures after CRM		Credit Exposures after CRM	
	Rated Exposures	Unrated Exposures	Rated Exposures	Unrated Exposures
1. Cash items	**-**	**27,585**	-	26,313
2. Claims on sovereigns	**-**	**495,735**	-	509,191
3. Claims on international org.	**-**	**-**	-	-
4. Claims on PSEs	**-**	**-**	-	-
5. Claims on MDBs	**-**	**-**	-	-
6. Claims on banks	**603,088**	**92,292**	278,251	133,083
7. Claims on corporates	**-**	**888,819**	-	941,796
8. Claims on securitised assets	**-**	**-**	-	-
9. Regulatory retail	**-**	**402,572**	-	379,757
10. RHLs eligible for 35% RW	**-**	**-**	-	-
11. Past due exposure	**-**	**65,437**	-	157,953
12. Other assets	**-**	**801,507**	-	589,257
	603,088	**2,773,947**	278,251	2,737,350

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 Group 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 CBK's 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 2011	KD 000's Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	**27,585**	**-**	**-**	**-**
2. Claims on sovereigns	**495,518**	**-**	**-**	**-**
3. Claims on international organizations	**-**	**-**	**-**	**-**
4. Claims on PSEs	**-**	**-**	**-**	**-**
5. Claims on MDBs	**-**	**-**	**-**	**-**
6. Claims on banks	**811,354**	**-**	**183**	**-**
7. Claims on corporates	**1,572,323**	**482,089**	**153,876**	**-**
8. Claims on securitised assets	**-**	**-**	**-**	**-**
9. Regulatory retail	**418,168**	**14,029**	**6,995**	**-**
10. RHLs eligible for 35% RW	**-**	**-**	**-**	**-**
11. Past due exposure	**107,436**	**72,322**	**41,793**	**-**
12. Other assets	**1,488,280**	**662,735**	**656,993**	**-**
	4,920,664	**1,231,175**	**859,840**	**-**

As at 31 December 2010	KD 000's Total gross Exposures	Collateralised Exposures	Financial Collaterals	Bank Guarantees
1. Cash items	26,313	-	-	-
2. Claims on sovereigns	508,977	-	-	-
3. Claims on international organizations	-	-	-	-
4. Claims on PSEs	-	-	-	-
5. Claims on MDBs	-	-	-	-
6. Claims on banks	450,907	-	-	-
7. Claims on corporates	1,714,200	531,544	231,724	-
8. Claims on securitised assets	-	-	-	-
9. Regulatory retail	420,564	19,866	31,796	-
10. RHLs eligible for 35% RW	-	-	-	-
11. Past due exposure	252,387	175,522	94,185	-
12. Other assets	1,429,340	747,609	791,094	-
	4,802,688	1,474,541	1,148,799	-

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:

	2011 KD 000's	2010 KD 000's
1. Interest rate position risk	**-**	-
2. Equity position risk	**-**	20
3. Foreign exchange risk	**240**	256
4. Commodities risk	**-**	-
5. Options	**-**	-
	240	276

VIII Operational risk

The Group uses the standardised approach for computation of operational risk capital charge that amounted to KD 17,915 thousand (2010: KD 19,239 thousand) which primarily involves segregating the Group'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 CBK's rules and regulations pertaining to capital adequacy standard. However, capital for operational risk is separately calculated for pillar two purposes using a variation of the standardised approach based on the results of the operational risk scorecard.

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 Group are taken to comply with regulations that require the Group as fund manager to hold at a minimum 5% of the outstanding issued units. Strategic equity holdings are taken in financial institutions where the Group expects to develop a business relationship or ultimately gain control of that entity.

Equity investment securities in the Group 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 investment valuation reserve in consolidated statement of comprehensive income. When the "available for sale" investment is disposed off or impaired, any prior fair value adjustments earlier reported in consolidated statement of comprehensive income are transferred to the consolidated 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 Group 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 the Group are as follows:

	2011 KD 000's	2010 KD 000's
1. Value of investment disclosed in the balance sheet	**326,63**	215,989
2. Type and nature of investment securities available for sale		
- Equity securities -quoted	**279,921**	180,853
- Equity securities -unquoted	**46,711**	35,136
	326,632	215,989
3. Cumulative realised gains (net) arising from sales of investment securities	**352**	244
4. Total unrealised gains (net) recognised in the balance sheet but not through profit and loss account	**67,595**	4,581
5. 45% of item (4) included in Tier 2 capital	**30,418**	2,061
6. Capital requirements		
Available for sale	**34,735**	25,616

X Interest rate risk in the Banking book

Interest rate risk management is governed by the interest rate risk management policy of the Group. 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 within the Group 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:

	2011 KD 000's		2010 KD 000's	
	Impact on earnings		Impact on earnings	
	± @ 1%	± @ 2%	± @ 1%	± @ 2%
Kuwaiti dinars	**8,282**	**16,563**	13,463	26,927
US dollars	**(813)**	**(1,625)**	253	506
Other currencies	**163**	**326**	113	225
	± 7,632	**± 15,264**	± 13,829	± 27,658

BRANCH NETWORK

Mubarak Al-Kabir	22990000	22464870
Abdulla Mubarak Street	22990005	22404826
Abu Halifa (Kuwait Magic)	22990043	23720449
Airport (Arrival)	22990004	24741951
Airport (Cargo)	24712099	24712088
Airport (Departure)	24740026	24741951
Fahaheel - Ajyal Complex	22990011	23913905
Al Rai	22990045	24724867
Al Dhow	22990058	22411961
Ali Sabah Al Salem	22990042	23280662
Al Naeem	22990056	24571797
Al Rabia	22990057	24719677
Al Soor Street	22990060	22418997
Andalus	22990036	24889129
Ardhiya	22990019	24887316
Dahiyat Abdulla Mubarak	22990059	22990193
Dhaher	22990041	23830726
Dasma	22990062	22990102
East Ahmadi	23980254	23980434
Fahaheel	22990006	23923779
Farwaniya Co-op	22990027	24723493
Hadiya	22990064	22990232
Hawalli	22990016	22616451
Hawalli (Beirut Str)	22990020	22621904
Jaber Al Ali	22990017	23840191
Jabriya	22990035	25334632
Jahra	22990007	24551580
Jleeb Al Shyoukh	22990063	22990153
Khaitan	22990008	24745584
Khaldiya	22990015	24810549
Kuwait Free Trade Zone	22990038	24610062
Labour Unit	22990763	24335856
Mansouriya	22990044	22573880
Ministries Complex	22990031	22474151
Omariya	22990010	24723487
Qurain	22990024	25440035
Ras Salmiya	22990033	25719570
Rumaithiya	22990018	25654902
Sabah Al Salem	22990054	22990354
Sabahiya	22990012	23617302
Salhiya	22990030	22463492
Salmiya	22990023	25727053
Salwa	22990051	25610780
Sharq	22990026	22454869
Shuwaikh	22990021	24837952
Six Ring Road	22990034	24345382
Souk Salmiya	22990048	25737326
South Surra	22990055	22990355
Sulaibikhat	22990013	24877318
Vegetable Market	22990028	24817859
West Mishref	22990046	25379277
Yarmouk	22990032	25352182

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