ANNUAL REPORT 2008

Forward With Confidence

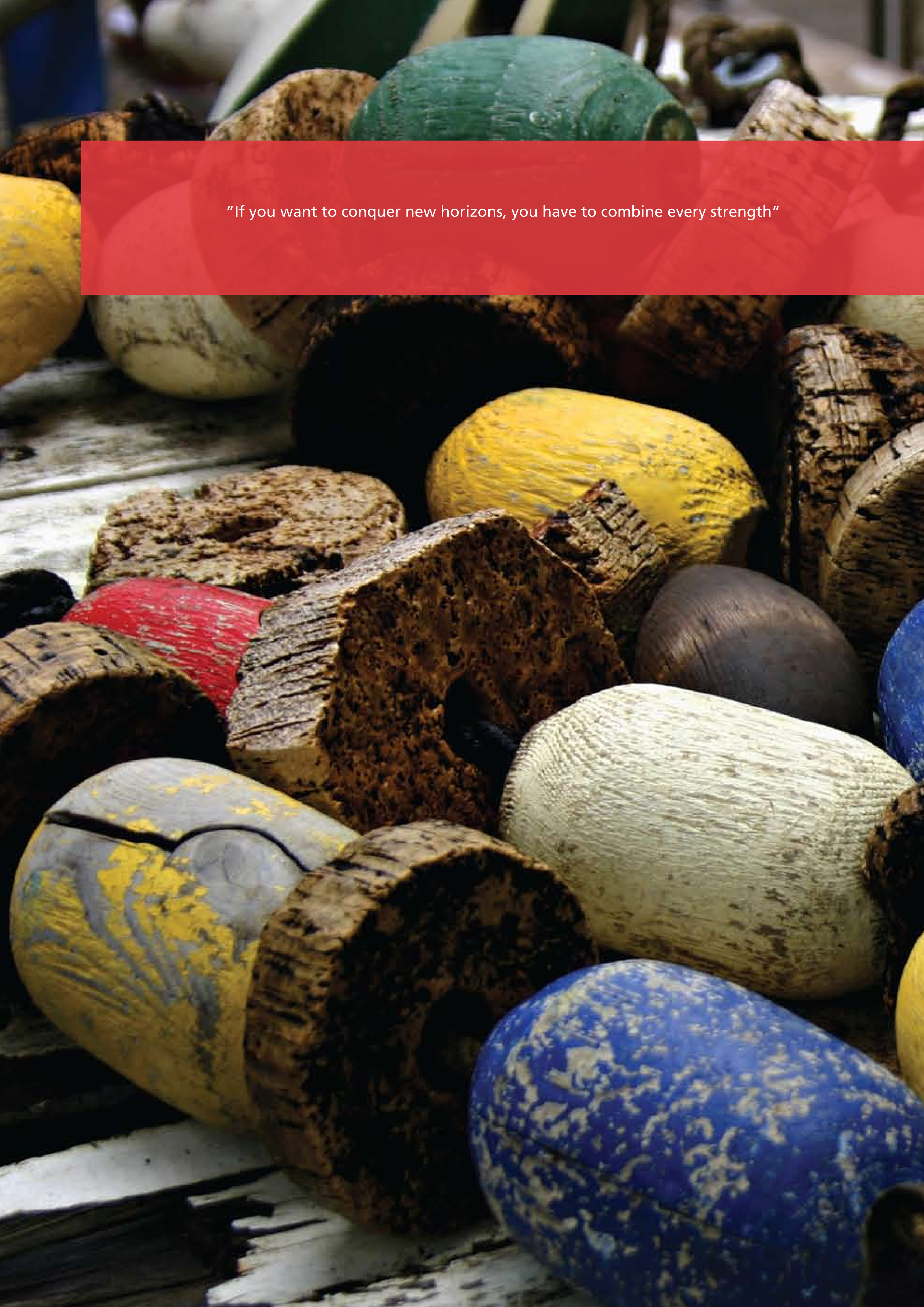
بنك الخليج
GULF BANK

“Thought is the wind, knowledge the sail, and experience the vessel”

H.H. Sheikh
Sabah Al-Ahmed Al-Jaber Al-Sabah
The Amir of the State of Kuwait

H.H. Sheikh
Nawaf Al-Ahmed Al-Jaber Al-Sabah
The Crown Prince

H.H. Sheikh
Nasser Al-Mohammed Al-Ahmed Al-Sabah
The Prime Minister



"If you want to conquer new horizons, you have to combine every strength"

GULF BANK ANNUAL REPORT 2008

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"There are no boundaries for those with the heart to explore"

GULF BANK ANNUAL REPORT 2008

BOARD OF DIRECTORS

Kutayba Yusuf Ahmed Alghanim

Chairman

Adel Mohammed Rida Yousef Behbehani

Deputy Chairman

Abdul Aziz Abdul Rahman Abdul Aziz Al-Shaya'a

Board Member

Jassem Mohammed Abdulla Al-Rizaihan

Board Member

Khaled Soud Abdulaziz Al-Hassan

Board Member

Mahdi Mahmoud Hajji Haider

Board Member

Nasser Yousuf Naser Buresli

Board Member

Salah Khalid Fulaij Al-Ali Al-Fulaij

Board Member

“The shores of success are always there; all we need to do is open our minds”

Kutayba Yusuf Ahmed Alghanim

GULF BANK ANNUAL REPORT 2008

CHAIRMAN'S MESSAGE

Review of 2008

In this message, I hope to achieve two things. First, address the issues behind the crisis suffered by the Bank in October, 2008 and assure all of our stakeholders that the Bank has been fully restored through our recapitalisation. Second, convey the good news that the Bank is back on its feet, rapidly regaining its momentum in the marketplace, and has a bright and exciting future.

Key Events of 2008

What prompted the crisis in October, 2008 and how was it handled? After having had nine months of solid performance despite difficult market conditions, at the end of October the Bank reported a massive loss due to exposure relating to a small number of highly volatile derivatives contracts. With the support of the Central Bank of Kuwait, we responded decisively and rapidly to the crisis. The first priority was financial stabilization. The Central Bank of Kuwait immediately provided the Bank with emergency temporary funding, plus all deposits were guaranteed nationwide to avoid a loss of confidence in the banking system. We also moved to isolate our exposure to these contracts, immediately and comprehensively providing for all potential losses.

I joined the Bank in the middle of this emergency as Chairman on 28th October 2008. I immediately assembled a core team of bank managers supported by a world-class team of consultants, lawyers, and investment bankers to help us navigate through this crisis.

We needed to know if there were any more 'skeletons in the closet', in other words, make sure there were no more surprise losses in our portfolio. We rapidly conducted a comprehensive and thorough "root and branch" review of the Bank's trading book, corporate lending portfolio, the retail businesses, and the Bank's overall risk profile. We found some additional losses that have now been provisioned but nothing of the magnitude of the derivatives loss. To ensure the review was exhaustive, we asked both of our external auditors, PriceWaterhouseCoopers and Ernst & Young, to conduct a Special Audit alongside a number of focused examinations from the Central Bank of Kuwait.

After the investigation was complete, our total annual net loss was KD359.5 million, operating income KD17.4 million, and total assets declined by 2.7% to KD4.9 billion. These are devastating results. However, I can say that Gulf Bank's portfolio has been thoroughly 'scrubbed' and that, while some risks still remain, they are limited in size and very tightly managed. We must ensure that the Bank never again faces crushing losses such as these.

On 2nd December 2008 with the support of the Central Bank of Kuwait, the General Assembly of Gulf Bank shareholders authorised a Rights Issue to recapitalize the Bank. We ultimately raised KD376 million, selling these new shares for 300 fils. 68% of these new shares were purchased by existing shareholders. The Kuwait Investment Authority (KIA) acquired the remainder, with a resulting post-capitalisation final equity stake of 16% in Gulf Bank. I would like to extend the appreciation of the Board to all those who expressed their confidence in the Bank by subscribing for shares. Also, I would like to

CHAIRMAN'S MESSAGE (CONTINUED)

warmly welcome the KIA as a new shareholder and am delighted to have such a strong partner as we move forward.

As a result of this re-capitalization as of 31st Jan 2009, the Bank now has a capital adequacy ratio of 13.82%. By any measure, this is a strong balance sheet that will give us the financial strength and flexibility to weather the continuing turbulence and uncertainty of the global financial markets.

New Board of Directors

When I was invited by the Board to join the Bank as Chairman on 28th October 2008, it was clear to me that, eventually, we would need to provide the Bank with a "fresh start" – both financially and in leadership. At its meeting of 17th November 2008, all members of Gulf Bank's Board of Directors resigned from Board membership, but agreed to continue with their responsibilities until a new Board is elected by the shareholders at this General Meeting. Shareholders have been invited to apply for Board membership, or to nominate candidates for representing them on Gulf Bank's Board. The names of the candidates were duly submitted to the Central Bank of Kuwait for approval, and we received from the Central Bank a list of approved candidates for Board membership, which will be presented to our shareholders during this Annual General Meeting to elect the members of the new Board from among those candidates. Once this Annual General Meeting is adjourned, the elected Board members will hold a meeting during which they will elect from among them a Chairman and Vice-Chairman. The former Board Directors and myself will no longer have any official capacities at Gulf Bank from then on. However, we have the utmost confidence in the new Board and fully commit to provide any support that may be asked of us in the future.

Moving Forward

During the last few months, as the Bank has become more stable, I have learned a lot about the Bank - its great retail and corporate customers, the Bank's dedicated staff, and the brand strength of the Bank.

As a result, I have become excited by the long-term prospects of the Gulf Bank – to the point of personally reinvesting in the Bank during the recapitalization.

Why do I believe there is tremendous potential here? As I mentioned before, part of our crisis management team included a world-class team of advisors that were assembled from around the world. Part of their mandate has been to assess the potential of the Bank and develop a business strategy that would lead the Bank toward world-class standards of customer satisfaction, product innovation, and competitive value. Our goal is to build the strongest banking franchise in Kuwait.

At a high-level, our plan consists of three core elements. First, we are ensuring that the Bank is secure. We are instituting a broad series of changes and upgrades to the ways we manage risk throughout the Bank – from the way we make decisions, to the information systems that we use to monitor risk, to redesigning a thorough system of checks and balances – to make sure that catastrophes like 2008 never happen again.

Second, we are investing in the Bank. After a long period of systemic underinvestment, we need to catch up and exceed the capabilities of our competitors. These investments will include new technologies that will improve our service to customers and expand the tools for our staff. They will include investing in the skills and advancement of our staff to better serve and compete. And we are building the best leadership team to drive the Bank forward.

Finally, we are setting the highest standards for ourselves by systematically embracing best practices from around the world. Although we are a mid-size bank in Kuwait, there is no reason that we cannot serve our customers as well or as efficiently as any bank anywhere else. There is no reason why our products can't be as creative. And there is no reason why our staff can't be as motivated to serve our customers, and shareholders. Rather than thinking of "best practices" as just a slogan, this will be a core element of our competitive practices.

CHAIRMAN'S MESSAGE (CONTINUED)

In Conclusion

Although my tenure as Chairman of Gulf Bank has been less than six months, many things have been accomplished by my team in that short time. But nothing could have been done without the support and teamwork of a broad number of people. First and foremost, I want to express my deepest appreciation to H.E. Sheikh Salem AbdulAziz Al-Sabah and his excellent team at the Central Bank of Kuwait. Their unwavering support throughout has been critical to our success. I would also like to thank our customers for their loyalty and confident support despite the ups and downs of the last six months. Finally, I want to thank the Bank's staff for prevailing during this most horrible of storms.

I can assure all of our supporters that their trust in the Bank is well-placed and that there is a renewed commitment by Gulf Bank to become a leader in the Kuwaiti market.

On behalf of the Board of Directors, I would like to pay tribute to His Highness, the Amir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, H.H. the Crown Prince Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and H.H. the Prime Minister Sheikh Nasser Al Mohammed Al Ahmed Al Sabah, for their continued support and guidance.

Kutayba Y. Alghanim

Chairman

FINANCIAL STATEMENTS - JANUARY 2009

FINANCIAL STATEMENTS - JANUARY 2009

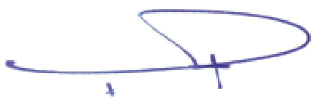
AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF GULF BANK K.S.C.

We have audited the accompanying interim condensed income statement for the one month period ended 31 January 2009 and the interim condensed balance sheet and schedule of capital adequacy ratio as at 31 January 2009 (the Schedules) of Gulf Bank K.S.C ('the Bank'). These Schedules are the responsibility of the Bank's management. Our responsibility is to express an opinion on these Schedules based on our audit.

We conducted our audit in accordance with International Standards on Auditing applicable to Special Purpose Audit Engagements. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Schedules. The audit is not designed to identify, nor necessarily be expected to disclose fraud, shortages, errors and other irregularities, should any exist. We believe that our audit provides a reasonable basis for our opinion.

Opinion

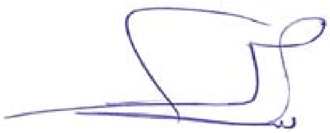
In our opinion, the Schedules present fairly, in all material respects the financial performance of the Bank for the one month period ended 31 January 2009 and the financial position and capital adequacy ratio as at 31 January 2009 in accordance with bases of presentation set out on page 17.



WALEED A. AL OSAIMI

LICENCE NO. 68 A

OF ERNST & YOUNG



BADER A. AL WAZZAN

LICENCE NO. 62 A

PRICEWATERHOUSECOOPERS

17 FEBRUARY 2009

KUWAIT

FINANCIAL STATEMENTS - JANUARY 2009 (CONTINUED)

GULF BANK K.S.C.
Interim Consended Income Statement
Period ended 31 January 2009

	KD 000's
Interest income	22,990
Interest expense	16,598
Net interest income	6,392
Net fees and commissions	2,301
Net gains from dealing in foreign currencies and derivatives	3,962
Realised losses from disposal of investments available for sale	(17)
Impairment loss on investments available for sale	(1,984)
Other income	57
OPERATING INCOME	10,711
Staff expenses	1,923
Occupancy costs	181
Depreciation	202
Other expenses	610
Operating expenses	2,916
OPERATING PROFIT BEFORE PROVISIONS	7,795
Charge (release) of provisions	
- specific	9,440
- general	(17)
	9,423
LOSS FOR THE PERIOD	(1,628)

FINANCIAL STATEMENTS - JANUARY 2009 (CONTINUED)

GULF BANK K.S.C.

Interim Condensed Balance Sheet

	31 January 2009 KD 000's	31 December 2008 KD 000's
ASSETS		
Cash and short term funds	**391,222**	381,921
Treasury bonds	**442,070**	426,597
Central Bank of Kuwait bonds	**18,352**	24,983
Deposits with banks and other financial institutions	**446,208**	413,926
Loans and advances to banks	**34,474**	31,973
Loan receivables and advances to customers	**3,483,023**	3,448,322
Investment securities	**156,042**	156,092
Other assets	**50,147**	39,968
Premises and equipment	**23,754**	23,665
TOTAL ASSETS	**5,045,292**	4,947,447
LIABILITIES AND EQUITY		
LIABILITIES		
Due to Central Bank of Kuwait	-	80,000
Due to banks	**16,359**	91,509
Deposits from financial institutions	**652,764**	658,508
Customer deposits	**3,714,312**	3,825,721
Subordinated loans	**86,760**	82,785
Other liabilities	**161,231**	170,936
	4,631,426	4,909,459
EQUITY		
Share capital	**250,770**	125,385
Statutory reserve	-	89,438
General reserve	-	2,356
Share premium	**153,024**	46,044
Property revaluation reserve	**15,528**	15,528
Treasury share reserve	**27,979**	27,979
Fair valuation reserve	**11,269**	10,619
Accumulated deficit	-	(233,957)
	458,570	83,392
Treasury shares	**(44,704)**	(45,404)
	413,866	37,988
TOTAL LIABILITIES AND EQUITY	**5,045,292**	4,947,447

Kutayba Y. Alghanim

(Chairman)

Louis Myers

(Chief General Manager & Chief Executive Officer)

FINANCIAL STATEMENTS - JANUARY 2009 (CONTINUED)

SCHEDULE OF CAPITAL ADEQUACY RATIO:

Capital Structure:

The table below details the regulatory capital resources for Gulf Bank as at 31 January 2009 and 31 December 2008.

Capital Structure		(KD 000's)
Composition of Capital		
	31-Jan-09	31-Dec-08
Tier 1 Capital		
Paid-up share capital	**250,770**	125,385
Reserves	**182,631**	165,817
Retained earnings	**-**	(233,957)
Less: Treasury Shares	**(44,704)**	(45,404)
Total Qualifying Tier 1 Capital	**388,697**	11,841
Tier 2 Capital		
Property Revaluation Reserve (45 %)	**6,988**	6,988
Fair Valuation Reserve (45%)	**5,071**	4,779
General Provisions (1.25% of Credit RWAs)	**46,237**	43,751
Subordinated Debt	**86,760**	82,785
Other deductions	**-**	(126,462)
Total Qualifying Tier 2 Capital	**145,056**	11,841
Total Eligible Regulatory Capital	**533,753**	23,682

FINANCIAL STATEMENTS - JANUARY 2009 (CONTINUED)

GULF BANK K.S.C.

SCHEDULE OF CAPITAL ADEQUACY RATIO

The following table below details the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for Gulf Bank as at 31 January 2009 and 31 December 2008.

CREDIT RISK EXPOSURES

	(KD 000's) **31-Jan-09**	(KD 000's) 31-Dec-08
Credit risk weighted assets	**3,698,975**	3,500,060
Less: Excess General Provisions	**(35,397)**	(37,900)
Net Credit risk weighted exposure	**3,663,578**	3,462,160
Market risk weighted assets	**16,202**	16,185
Operational risk weighted exposures	**183,701**	183,701
Total Risk Weighted exposures	**3,863,481**	3,662,046

CAPITAL REQUIREMENTS

Credit Risk	***(KD 000's)*** **31-Jan-09**	(KD 000's) 31-Dec-08
Cash items	**-**	-
Claims on sovereigns	**1,805**	1,722
Claims on public sector entities (PSEs)	**9,885**	9,606
Claims on banks	**41,907**	44,422
Claims on corporates	**186,507**	174,532
Regulatory retail exposures	**72,410**	72,753
Past due exposures	**22,230**	21,901
Other Assets	**109,133**	95,071
Credit risk Capital Requirement	**443,877**	420,007
Less: Excess General provision (12%)	**(4,248)**	(4,548)
Net Credit risk Capital Requirement	**439,629**	415,459

Market Risk	***(KD 000's)*** **31-Jan-09**	(KD 000's) 31-Dec-08
Interest rate position risk	**1,849**	1,764
Foreign exchange risk	**96**	179
Capital requirement for market risk	**1,945**	1,943
Capital requirement for Operational risk	**22,044**	22,044
TOTAL CAPITAL REQUIRMENT	**463,618**	439,446

Capital adequacy ratios (per cent)	**31-Jan-09**	31-Dec-08
Tier 1 ratio	**10.06%**	0.32%
Total capital adequacy ratio	**13.82%**	0.65%

FINANCIAL STATEMENTS - JANUARY 2009 (CONTINUED)

GULF BANK K.S.C.

NOTES TO SCHEDULES AS AT 31 JANUARY 2009

Basis of preparation

The Schedules have been prepared to determine the financial performance of the Bank for the one month period ended 31 January 2009 and the impact of the rights issue of share capital mentioned below on the financial position and capital adequacy ratio as at 31 January 2009.

The Bank's Board of Directors had resolved to recommend an increase in equity share capital from KD125,385,118 to KD250,770,236 through a rights issue of 1,253,851,183 shares of 100 fils each at a premium of 200 fils per share, to shareholders on record as of 26 October 2008. The terms of right issue were approved at the ordinary and extraordinary general meeting of shareholders held on 2 December 2008. The Amiri decree for this increase was issued on 23 December 2008.

During the subscription period in January 2009 the rights issue was fully subscribed to and the minimum capital adequacy ratio was restored. The existing shareholders participated in 68% of the rights issue and in line with the resolutions adopted by shareholders at the above EGM, Kuwait Investment Authority took the unsubscribed shares.

The Schedules have been approved for issue by the Board of Directors on 17 February 2009.

a) Interim Condensed Balance Sheet and Income Statement

The interim condensed balance sheet and income statement have been prepared in accordance with International Financial Reporting Standards (as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment and uncollectability of financial assets) and the accounting policies used in its preparation are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2008. For further information refer to the annual financial statements for the year ended 31 December 2008 approved by the Board of Directors on 17 February 2009. Balance sheet comparative figures are for information purpose only and no comparative information for income statement has been presented.

Operating results for one month ended 31 January 2009 are not necessarily indicative of the results that may be expected for the year ended 31 December 2009.

b) Schedule of Capital Adequacy Ratio

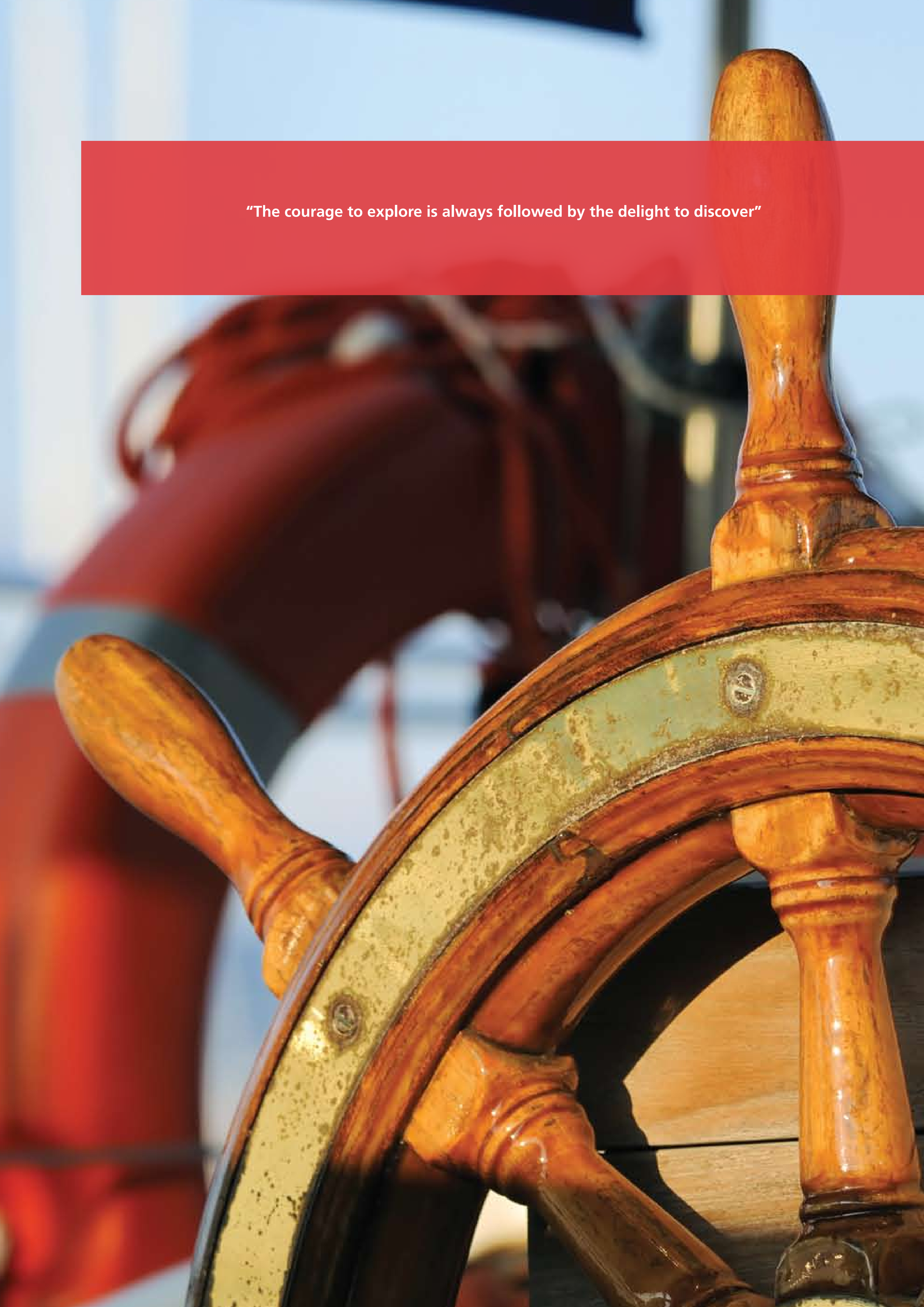
The Schedule of Capital Adequacy Ratio is prepared in accordance with Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005 and subsequent amendments thereto.

c) Opening balances

Opening balances are subject to shareholders' approval of the 31 December 2008 annual financial statements.

d) Offsetting accumulated losses

The share premium, statutory and general reserves as of 31 January 2009 have been utilised to offset accumulated losses of KD235,585,000 as of that date and are subject to approval of shareholders.



"The courage to explore is always followed by the delight to discover"

GULF BANK ANNUAL REPORT 2008

Financial Review

INCOME STATEMENT ANALYSIS

(KD Millions)	2008	2007
Net Interest Income	**118.1**	106.6
Other Operating Income	**(100.7)**	89.0
Operating Income	**17.4**	195.6
Operating Expenses	**(42.7)**	(36.4)
Operating Profit before Provisions	**(25.3)**	159.2
Provisions	**(333.8)**	(15.5)
Loans write down	**-**	(8.4)
Operating Profit	**(359.1)**	135.3
Directors' emoluments	**(0.0)**	(0.1)
KFAS/ National Labour Support Tax / Zakat	**(0.4)**	(4.8)
Net Profit	**(359.5)**	130.4

2008 marked an unusual year for Gulf Bank with a net loss of KD359.5 million mainly due to exceptional losses in derivative transactions, losses on investment portfolio and incremental provisions on the loan portfolios.

Net interest income was higher by KD11.6 million mainly due to the reversal of the effective interest adjustment done in the previous year.

Average Retail lending was almost the same level as 2007 while Average Corporate lending grew by 25% during the year.

Other operating income was lower by KD189.8 million mainly due to losses from derivative transactions and impairment loss on investment securities.

Operating expenses increased by KD6.4 million (17%) in 2008. Staff costs grew by KD2.6 million (12%).

The provisions charge at KD333.8 million includes KD200.8 million provision for losses on receivable from a related party, KD56.1 million provision against fair value of open derivative transaction with certain customers, and additional loan loss provision taken during the year.

BALANCE SHEET ANALYSIS

Selected balance sheet data *(KD millions)*	31-Dec 2008	31-Dec 2007
Cash & short term funds: balances with CBK	**64.4**	57.0
Loans and advances to banks	**32.0**	38.0
Loans and advances to customers	**3,448.3**	3,268.8
Deposits with banks and OFIs	**413.9**	313.7
Investment securities	**156.1**	242.9
Total assets	**4,947.4**	5,082.9
Due to CBK	**80.0**	0.0
Due to banks	**91.5**	301.6
Floating rate notes	**0.0**	54.6
Subordinated loans	**82.8**	81.9
Deposits from Other Financial Institutions	**658.5**	874.5
Customer deposits	**3,825.7**	3,191.3
Shareholders' funds	**38.0**	420.8

Total assets decreased by KD135 million or 3% to KD4.9 billion at 31 December 2008 mainly due to lower equity on liability side and correspondingly lower investible funds on the asset side. 70% of the balance sheet was deployed in customer loans and advances at 31 December 2008, as against 64% in 2007.

Loans and advances to banks declined by KD6.0 million (16%) to KD32.0 million.

Deposits with banks and other financial institutions ('OFIs') increased by KD100.2 million.

Investment securities decreased by KD86.8 million (36%) mainly due to impairment charges taken during the year. There were no debt securities at year-end 2008.

Due to banks decreased by KD210.1 million (70%), from KD301.6 million to KD91.5 million. During the year, the Bank repaid on maturity its five year Floating rate notes (FRNs) issued in October 2003 for USD200 million.

Shareholders' funds decreased by KD382.8 million (91%) from KD420.8 million to KD38.0 million. The decrease was mainly due to the accumulated deficit on account of the losses on the structured derivative products. As a result, the Board of Directors resolved to recommend an increase in equity share capital from KD125.4 million to KD250.8 million by way of Rights issue that was successfully completed in January 2009.

CAPITAL MANAGEMENT AND ALLOCATION

Capital Measurement and Allocation:

Gulf Bank K.S.C. is a public shareholding company incorporated in Kuwait and registered as a bank with the Central Bank of Kuwait ('CBK'). The Bank is a domestic Kuwaiti commercial bank (with no overseas offices). It has no subsidiaries or significant minority equity investments.

Gulf Bank is required to comply with the regulatory capital adequacy guidelines promulgated by CBK. These guidelines are based on the standards established by the Basel Committee on Banking Supervision ('the Basel Committee') of the Bank for International Settlements ('BIS').The BIS/CBK guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance-sheet exposure. Capital is also set aside for operational risk and for the market risk associated with trading activities. In accordance with the CBK guidelines, the Kuwaiti banks (including Gulf Bank) must maintain a minimum capital adequacy ratio of 12% (compared with the internationally agreed minimum of 8%).

Gulf Bank's capital is divided into two tiers: Tier 1, comprising paid-up share capital and reserves (less treasury shares); and Tier 2, comprising subordinated debt and a proportion of property revaluation reserves, investment fair valuation reserves and general provisions. The Bank does not have any Tier 3 capital (which is used solely to cover market risk) since the level of Gulf Bank's market risk exposure is minimal and is expected to remain so for the foreseeable future.

Risk-weighted assets comprise credit risk-weighted assets and market risk-weighted assets. Credit risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset (on and off-balance-sheet) and counterparty, taking account of any eligible collateral or guarantees. Market risk-weighted assets are determined by taking into account market-related risks such as foreign exchange, interest rate and equity position risks, and counterparty risk. Capital is also required to cover operational risk-weighted exposure.

Capital Adequacy Framework (Basel II):

The Basel II framework incorporates three equally important and mutually reinforcing pillars: Pillar 1 (minimum capital requirements), Pillar 2 (supervisory review process) and Pillar 3 (market discipline).

Pillar 1 provides three approaches (of increasing sophistication) to the calculation of the regulatory capital requirement for credit risk: the standardised approach and two more sophisticated internal ratings-based ('IRB') approaches. The standardised approach uses external credit ratings to determine the risk weightings to be applied to rated counterparties and groups non-rated counterparties into broad categories and applies standardised risk weightings to these categories. The IRB approaches (foundation and advanced) allow banks to calculate the regulatory capital requirement for credit risk based on their own internal assessment.

Pillar 2 recognizes the necessity of exercising effective supervisory review to ensure that banks have comprehensive risk management and control structures in place and are exercising sound judgment in evaluating the risk profiles of their activities and are setting aside adequate capital to cover these risks. Supervisors are required to intervene at an early stage to prevent capital falling below the minimum levels required to support the risk characteristics of the Bank.

Pillar 3 leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting.

CBK has implemented all three pillars of the Basel II framework with effect from 31 December 2005.

CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

Capital Structure:

The table below details the regulatory capital resources for Gulf Bank as at 31st December 2008 and 31st December 2007.

Capital Structure *(KD Million)*

Composition of Capital

	31-Dec-08	31-Dec-07	Variance
Tier 1 Capital			
Paid-up share capital (Including Proposed Bonus Shares)	**125.4**	125.4	0.0
Reserves	**165.8**	165.8	0.0
Retained earnings	**(234.0)**	125.6	(359.6)
Less: Treasury Shares	**(45.4)**	(19.9)	(25.5)
Total Qualifying Tier1 Capital	**11.8**	396.9	(385.1)
Tier 2 Capital			
Property Revaluation Reserve (45 %)	**7.0**	6.8	0.2
Fair Valuation Reserve (45%)	**4.8**	4.0	0.8
General Provisions (1.25% of Credit RWAs)	**43.8**	32.8	11.0
Subordinated Debt	**82.8**	81.9	0.9
Other Deduction	**(126.6)**	-	(126.6)
Total Qualifying Tier 2 Capital	**11.8**	125.5	(113.7)
Total Eligible regulatory Capital	**23.6**	522.3	(498.7)

Qualifying Tier 1 capital decreased by KD385 million (97%) to KD11.8 million mainly due to provision for one-off losses on Structured Derivative deals and impairment of Credit / Investment Portfolio. In line with the resolution adopted by shareholders at the EGM on 2 December 2008:

- The share capital of the Bank was increased from KD125.4 million to KD250.8 million by way of a rights issue of 1,253,851,183 shares at a premium of 0.200 fils per share to existing shareholders with the balance of unsold shares to be purchased by the Kuwait Investment Authority (KIA)

In January 2009, a sum of KD376.2 million (including share premium) was raised from existing shareholders with KIA subscribing to 403,253,507 shares representing 32% of the new rights issue and a final ownership stake in Gulf Bank of 16%.

The revised Bank's Tier 1 capital as at 31 January 2009 is KD388.7 million.

Qualifying Tier 2 capital is restricted at KD11.8 million, as the total elements of supplementary capital eligible within capital base cannot exceed 100% of the Qualifying Tier 1 capital. Qualifying Tier 2 capital would have been KD138.3 million, if the Tier 1 capital were adequate to support that level of Tier 2 capital.

Capital Management:

Gulf Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of loan growth expectations for each business group, expected growth in off-balance- sheet facilities and trading (i.e. market risk) activities, future sources and uses of funds, and the Bank's future dividend policy. Capital is allocated to different business groups and stress testing is used to ensure that the Bank's internal capital targets are consistent with the risk

CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

profile of the Bank.

The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier 1 and Tier 2 capital.

The following table below details the risk-weighted assets, regulatory capital requirements and regulatory capital ratios for Gulf Bank as at 31 December 2008 and 31 December 2007.

Risk Weighted Assets

Credit Risk Exposures		*(KD Million)*
	31-Dec-08	31-Dec-07
Credit risk weighted assets	**3,500.1**	2,621.7
Less: Excess general provisions	**(37.9)**	(42.5)
Net Credit risk weighted exposure	**3,462.2**	2,579.2
Market risk weighted assets	**16.2**	5.0
Operational risk weighted exposures	**183.7**	166.7
Total Risk Weighted exposures	**3,662.1**	2,750.9

Capital Requirements		*(KD Million)*
Credit Risk	**31-Dec-08**	31-Dec-07
Cash items	**0.0**	0.0
Claims on sovereigns	**1.7**	0.7
Claims on public sector entities (PSEs)	**9.6**	8.5
Claims on banks	**44.4**	34.3
Claims on corporates	**174.5**	154.7
Regulatory retail exposures	**72.8**	53.8
Past due exposures	**21.9**	2.9
Other Assets	**95.1**	59.7
Credit risk Capital Requirement	**420.0**	314.6
Less: Excess general provision (12%)	**(4.5)**	(5.1)
Net Credit risk Capital Requirement	**415.5**	309.5

CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

(KD Million)

Market Risk	31-Dec-08	31-Dec-07
Interest rate position risk	1.7	0.4
Foreign exchange risk	0.2	0.2
Capital requirement for market risk	**1.9**	0.6
Capital requirement for Operational risk	**22.0**	20.0
TOTAL CAPITAL REQUIREMENT	**439.4**	330.1

Capital adequacy ratios (per cent)	31-Dec-08	31-Dec-07
Tier 1 ratio	0.3%	14.4%
Total capital adequacy ratio	**0.6%**	19.0%

Total risk-weighted exposure at 31 December 2008 was KD3,662 million, requiring regulatory capital (at 12%) of KD439 million. Gulf Bank's available regulatory capital (KD23.6 million) has fallen below the minimum regulatory capital requirement mainly due to provisions for one-off losses on structured derivative deals and impairment of Credit/Investment Portfolio incurred during the last quarter of 2008.

RISK MANAGEMENT

Risk Management Control Overview:

All banking activities involve the analysis, evaluation, acceptance and management of some degree of risk. The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risks.

Gulf Bank strives to maintain strong and prudent risk management culture. The identification and management of risk is a high priority and is integral to the execution of the Bank's activities. Gulf Bank's risk management policies are designed to identify and analyze risks, set appropriate risk limits and controls and monitor the risks and limits. Effective risk management relies on individual responsibility and collective oversight. Responsibility for risk resides at all levels of management, from the Board of Directors downwards, and each business manager is accountable for managing the risks in their own area, assisted where appropriate by risk specialists.

The two principal bodies responsible for managing and overseeing risk within Gulf Bank are the Risk Management function and the Asset and Liability Management Committee ('ALCO'). The internal audit function and the Audit Committee monitors the adherence to policies and procedures and review the effectiveness of the Bank's internal control systems. In accordance with CBK requirements, the Risk Management function reports direct to the Chief General Manager and Chief Executive Officer.

ALCO is responsible for managing the asset/liability structure and funding strategy of Gulf Bank, based on a thorough review of domestic and international financial market conditions, interest rate and foreign exchange forecasts and the Bank's internal risk guidelines. ALCO meets monthly to monitor and review all aspects of the Bank's fundamental liquidity profile and key financial strategic exposures; adherence to internal and statutory ratio requirements; capital management (including internal capital allocation); asset and liability structure and balance sheet risk management; risk concentrations; transfer pricing and internal funds transfer; and the control of trading risk limits.

The risk management policies and procedures are constantly reviewed and, where necessary, modified and enhanced to reflect changes in markets and products. After the one-off losses on structured products incurred in October 2008, a comprehensive review is being undertaken for necessary enhancements.

Credit Risk:

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from lending, trade finance and treasury activities. The Bank has comprehensive policies and procedures to control and monitor all such risks. Note 28 (A) to the financial statements explains credit risk in detail and also outlines bank's policy and framework to manage it.

Market Risk:

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates; credit spreads and equity and commodity prices will reduce the Bank's income or the value of its portfolios. Gulf Bank is exposed to market risk through its trading activities, which are carried out both for customers and on a proprietary basis. The treasury group monitors and controls market risk for the Bank's foreign exchange and interest rate risk. The investment group monitors the equity market risk for proprietary investment portfolio. Individual dealer position and trading limits are set for each portfolio; product and risk type to ensure that the Bank's market risk is managed within the overall CBK regulatory guidelines and the market risk profile set by ALCO. Interest rate, currency and liquidity mismatches are monitored constantly by the treasury group and regularly reviewed by ALCO. The degrees of mismatch permitted by ALCO are minimal.

The Bank's primary treasury business involves foreign exchange transactions on behalf of corporate customers. All customer transactions are undertaken on a strictly back-to-back basis. The treasury group used to undertake a limited amount of proprietary foreign exchange trading, mainly in the G7 currencies but also in the regional and other minor currencies. The risks were limited since the

RISK MANAGEMENT (CONTINUED)

open foreign exchange positions are very small and in strict adherence with the open currency position limits set by CBK. However, as a measure of abundant prudence, the Bank has discontinued all proprietary FX positions in Q4 2008, and does not intend to take any proprietary FX positions in near future. The Bank does not trade fixed income or equities.

Interest rate trading is restricted to meeting the funding requirements of the Bank's domestic and international foreign currency assets and investing any surpluses. As a matter of general policy, these positions do not contain any material element of interest rate risk. A modest amount of proprietary money market trading and foreign and local currency interbank activity is undertaken. The mismatch risks are minimal and are again governed by strict CBK limits.

The Bank was engaged in structured derivative transactions on behalf of clients on a back-to-back basis utilizing a limited range of derivative instruments such as futures, swaps and options for the purpose of hedging its own positions and for hedging customer transactions. However, due to the Marked-to-Market losses on the structured derivative transactions the Bank was instructed to close out the inter-bank transactions. For some clients who were unwilling to close out their corresponding transactions the Bank has left them open and is hence exposed to the market risk to the extent of their open positions.

Gulf Bank's treasury group also maintains a portfolio of Kuwait Government treasury bonds and CBK bonds to meet the CBK statutory liquidity requirements and to manage surplus domestic currency liquidity.

The Kuwaiti Dinar is the Bank's functional currency and almost all of the Bank's assets and liabilities are denominated in either KD or USD and are match funded in the same currency. As a result, there is limited structural cross currency foreign exchange exposure.

Liquidity Risk:

Liquidity risk arises in the general funding of a bank's activities. Note 28 (D) to the financial statements explains liquidity risk in detail and also outlines bank's policy and framework to manage it.

Operational Risk:

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure and external events. This risk includes operational risk events such as IT problems, shortcomings in the organisational structure, lapses in internal controls, human error and fraud and external threats. It is inherent in every business organisation and covers a wide spectrum of issues. Gulf Bank manages operational risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. Managers throughout the Bank are required to establish a strong internal control structure to minimise the risk of operational and financial failure.

Operational risk is managed through the Risk Management function. Risk Management approves all of the Bank's policies and procedures, prior to gaining the approval of the Executive Committee and the Board of Directors. Internal Audit monitors compliance with policies and procedures through an independent programme of regular reviews and there is a comprehensive annual Internal Controls Review ('ICR') conducted by an external accounting firm. The Bank's Audit Committee reviews the internal audit and ICR reports and a copy of the ICR report is submitted to CBK. Risk mitigation, including insurance, is considered where it is cost-effective and the Bank maintains contingency facilities to support operations in the event of disasters.

Interest Rate Risk (Banking Book):

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates. Several measures are used by ALCO to monitor and limit non-trading interest rate risk, including scenario analysis, interest rate gap analysis and market value limits. Treasury monitors and controls the Bank's interest rate gaps using the IPS Sendero asset and liability management ('ALM') software package. The potential profit and loss implications are regularly reviewed at ALCO to ensure

RISK MANAGEMENT (CONTINUED)

that they are within the Bank's limited appetite for interest rate risk.

In reality, the Bank has limited exposure to interest rate risk since most of the Bank's assets and liabilities are floating rate and tied either to the CBK discount rate, Kuwait interbank offered rates ('KIBOR') or USD LIBOR.

Gulf Bank is exposed to minimum interest rate risk. Most of the KD loans get re-priced automatically with the change in discount rates while the KD deposits gets re-priced only at maturity. However, since the deposits are for a shorter tenor with over 60% deposits maturing within 3 months, the interest rate risk is minimal. Effective 30th March 2008, CBK revised lending norms relating to consumer and installment loans. For any loans granted after 30th March 2008, interest rate is to be fixed for the first five years and then can be revised by maximum 2% up or down every five years. The Bank is exposed to interest rate risk to this extent. Most FC loans re-price as per agreement while the FC deposits re-price at maturity.

Equity Risk (Banking Book):

The Strategic Investments Group is responsible for managing the investment securities portfolio in the banking (i.e. non-trading) book. In accordance with IAS 39, the assets are classified as 'available for sale', i.e. assets 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, exchange rates or equity prices. The assets are initially recognised at fair value and the subsequent unrealised gains and losses arising from changes in fair value are taken to the fair value reserve in equity. When the asset is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses. CBK also sets a maximum limit of 50% of the Bank's capital for investment in securities.

In the current global financial turmoil, Gulf Bank has adopted a conservative policy to measure its Equity Risk. The Bank treats available for sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. The management considers decline in value below cost of 30% of an individual investment as significant and twelve months as prolonged.

CREDIT RISK EXPOSURES

Gulf Bank's internal grading process for credit facilities is designed to highlight exposures requiring greater management attention based on a higher probability of default and potential loss. Note 28 (A) to the financial statements explain bank's internal grading process in detail.

The classification is applied to the whole credit relationship and not just the specific transaction or account in trouble. Problem loans are classified in accordance with CBK regulations, and a quarterly report detailing the problem loans is submitted to CBK.

The quality of the loan portfolio and the adequacy of the impairment provisions for loans and advances are reviewed monthly by the Classification and Provisions Committee ('CPC'). Charges for new provisions or releases of existing provisions are calculated for each non-performing credit facility, based on the loan classification, the Bank's aggregate exposure to the customer (including any contingent liabilities) and the value (and enforceability) of any collateral. Two types of impairment provision are taken: specific and general. Specific provisions represent the quantification of actual and inherent losses from individually identified accounts. General provisions augment specific provisions and provide cover for loans which may be impaired at the balance sheet date but which will not be individually identified as such until some time in the future. Charges for impairment provisions are reflected in the Bank's income statement. Any increase in these provisions has the effect of reducing Gulf Bank's profit by a corresponding amount (while any decrease in provisions or release of provisions has the opposite effect). The provisions are deducted from the gross loans and advances in the balance sheet. Loans (and the related specific provisions) are written off (normally in full) when there is no realistic prospect of recovery of the outstanding amounts.

The Bank's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the State of Kuwait for financial services institutions regulated by CBK. These regulations require adoption of all IFRS requirements except for the IAS 39 requirements relating to collective impairment provisions on credit facilities. The policy of the Bank for the calculation of specific impairment provisions complies in all material respects with the specific provision requirements of CBK. The categorisation of non-performing loans is as follows:

Category	Overdue (Days)	Specific Provision
Below standard	91-180	20%
Doubtful	181-365	50%
Bad	>1 year	100%

The Bank also complies with IAS 39 and assesses the need for specific credit impairment provisions by calculating the net present value of the expected future cash flows for each loan.

The specific provisions are calculated on the net amount outstanding after deducting the current market value of any eligible collateral.

The Bank undertakes detailed pre-fact review to assess the viability of the business and its expected future cash flows before any credit is extended. Once a credit facility is extended, the loan portfolio is monitored on a regular basis to help the early detection of potential credit problems. The relationship managers are responsible for the day-to-day monitoring of their accounts, but the independent credit control unit also undertakes regular 'post fact' credit reviews after the loans have been disbursed.

The CPC meets monthly to follow up and monitor the status of the Bank's non-performing loans. A detailed report showing all past dues and excesses over 10 days (not just classified accounts) is circulated to division heads and account officers on a monthly basis for their immediate follow up. This report is reviewed with the loan officers at the monthly CPC

CREDIT RISK EXPOSURES (CONTINUED)

meeting to determine necessary corrective actions and/or provisioning requirements. CPC review and independently evaluate the quality of the credit facilities extended by the Bank and ensure that they are in accordance with the credit policy of the Bank and CBK requirements.

The Bank also has a separate, specialist remedial credit unit that is responsible for handling non-performing loans. The remedial unit provides customers with intensive management and control support in order to help them avoid default wherever possible, thereby ensuring maximum recoveries for the Bank. The remedial unit report on the progress made on each non-performing loan account to CPC on a monthly basis, and provide a monthly progress report for each such account to the MSC. In addition, the Bank's legal department is fully involved throughout the remedial process, initiating appropriate legal action where necessary.

Credit exposures may be reduced by the use of approved credit risk mitigation techniques (see the discussion of 'credit risk mitigation' below).

Gross Credit Risk Exposure:

The summary of Gulf Bank's gross credit risk exposure (before credit risk mitigation) in 2008 and 2007 is shown below. The unfunded (i.e. off-balance-sheet) amounts represent the gross credit risk exposure before the credit conversion factor ('CCF') adjustments, since the gross amounts reflect the Bank's ultimate credit risk in the event of default by the counterparties.

KD Million

Gross Exposure	31-Dec-08	31-Dec-07	Growth
Funded Gross Credit Exposure	**5,002.9**	5,133.6	**(2.5)%**
Unfunded Gross Credit Exposure	**2,755.0**	2,344.1	**17.5%**
Total Gross Credit Exposure	**7,757.9**	7,477.7	**3.7%**

Funded gross credit exposure for 2008 is 64.5% (2007: 68.7%) of the total gross credit risk exposure.

Average Credit Risk Exposure:

Average Gross Exposure	31-Dec-08	31-Dec-07	Growth
Funded Gross Credit Risk Exposure	**5,135.8**	4,535.3	**13.2%**
Unfunded Gross Credit Risk Exposure	**2,712.3**	1,943.5	**39.6%**
	7,848.1	6,478.8	**21.1%**

Average funded gross credit risk exposure for 2008 is 65.4% (2007: 70.0%) of the total average gross credit risk exposure. The full year average amounts are calculated using a 13-point average of the month end figures from 31 December 2007 to 31 December 2008 inclusive.

CREDIT RISK EXPOSURES (CONTINUED)

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2008 and 31 December 2007 is shown below. The geographical distribution is based on the primary purpose of the credit facilities.

Total gross credit risk exposures as at 31 December 2008 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	28,094	-	-	-	-	-	28,094
Claims on sovereigns	515,926	146,472	-	-	71,747	-	734,145
Claims on public sector entities (PSEs)	-	180,811	46,622	-	-	-	227,433
Claims on Banks	10,484	723,216	138,905	7,018	93,727	3,554	976,904
Claims on corporates	2,420,752	772,728	14,957	127,159	131,274	50,999	3,517,869
Regulatory retail exposures	683,310	333	40	30	82	1	683,796
Past due exposures	193,305	-	-	-	-	-	193,305
Other assets	1,270,562	9,268	66	4,326	-	112,088	1,396,310
	5,122,433	1,832,828	200,590	138,533	296,830	166,642	7,757,856
Percentage of gross exposure by geographical region	66.0%	23.6%	2.6%	1.8%	3.8%	2.2%	100.0%

Total gross credit risk exposures as at 31 December 2007 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	647,110	144,895	-	-	88,725	-	880,730
Claims on public sector entities (PSEs)	-	188,885	67,300	-	-	-	256,185
Claims on Banks	223,767	681,988	47,399	5,955	87,106	1,664	1,047,879
Claims on corporates	3,422,317	450,510	76,284	-	8,166	92,578	4,049,855
Regulatory retail exposures	658,863	62	247	110	58	250	659,590
Past due exposures	24,598	-	-	-	-	-	24,598
Other assets	323,302	9,317	5,879	190	-	199,426	538,114
	5,320,721	1,475,657	197,109	6,255	184,055	293,918	7,477,715
Percentage of gross exposure by geographical region	71.2%	19.7%	2.6%	0.1%	2.5%	3.9%	100.0%

CREDIT RISK EXPOSURES (CONTINUED)

Funded (On balance sheet) credit facilities at 31 December 2008 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	28,094	-	-	-	-	-	28,094
Claims on sovereigns	515,926	-	-	-	-	-	515,926
Claims on public sector entities (PSEs)	-	13,490	24,071	-	-	-	37,561
Claims on Banks	4,767	613,274	110,571	3,928	2,780	18	735,338
Claims on corporates	1,531,861	133,902	257	-	5,215	50,999	1,722,234
Regulatory retail exposures	646,524	323	7	30	82	1	646,967
Past due exposures	185,439	-	-	-	-	-	185,439
Other assets	1,005,570	9,268	66	4,326	-	112,088	1,131,318
	3,918,181	770,257	134,972	8,284	8,077	163,106	5,002,877
Percentage of gross exposure by geographical region	78.3%	15.4%	2.7%	0.2%	0.2%	3.2%	100.0%

Funded (On balance sheet) credit facilities at 31 December 2007 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	647,098	-	-	-	-	-	647,098
Claims on public sector entities (PSEs)	-	57,708	42,730	-	-	-	100,438
Claims on Banks	217,372	604,171	33,259	2,946	346	51	858,145
Claims on corporates	2,230,890	70,086	-	-	4,644	92,578	2,398,198
Regulatory retail exposures	635,878	34	247	110	58	250	636,577
Past due exposures	23,765	-	-	-	-	-	23,765
Other assets	233,772	9,317	5,879	190	-	199,426	448,584
	4,009,539	741,316	82,115	3,246	5,048	292,305	5,133,569
Percentage of gross exposure by geographical region	78.1%	14.4%	1.6%	0.1%	0.1%	5.7%	100.0%

CREDIT RISK EXPOSURES (CONTINUED)

Unfunded (Off balance sheet) credit facilities at 31 December 2008 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	-	146,472	-	-	71,747	-	218,219
Claims on public sector entities (PSEs)	-	167,321	22,551	-	-	-	189,872
Claims on Banks	5,717	109,942	28,334	3,090	90,947	3,536	241,566
Claims on corporates	888,891	638,826	14,700	127,159	126,059	-	1,795,635
Regulatory retail exposures	36,786	10	33	-	-	-	36,829
Past due exposures	7,866	-	-	-	-	-	7,866
Other assets	264,992	-	-	-	-	-	264,992
	1,204,252	1,062,571	65,618	130,249	288,753	3,536	2,754,979
Percentage of gross exposure by geographical region	43.7%	38.6%	2.4%	4.7%	10.5%	0.1%	100.0%

Unfunded (Off balance sheet) credit facilities at 31 December 2007 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	12	144,895	-	-	88,725	-	233,632
Claims on public sector entities (PSEs)	-	131,177	24,570	-	-	-	155,747
Claims on Banks	6,395	77,817	14,140	3,009	86,760	1,613	189,734
Claims on corporates	1,191,427	380,424	76,284	-	3,522	-	1,651,657
Regulatory retail exposures	22,985	28	-	-	-	-	23,013
Past due exposures	833	-	-	-	-	-	833
Other assets	89,530	-	-	-	-	-	89,530
	1,311,182	734,341	114,994	3,009	179,007	1,613	2,344,146
Percentage of gross exposure by geographical region	55.9%	31.3%	4.9%	0.1%	7.6%	0.1%	100.0%

The bulk of the Bank's credit exposure is in Kuwait: KD5.12 billion (66.0% of total gross credit exposure) at 31 December 2008, compared with KD5.32 billion (71.2% of total gross credit exposure) at 31 December 2007.

The claims on corporates mix decreased from 54% in 2007 to 45% by 2008 of total gross exposures due to reclassification of certain category of loans. Lending for Real Estate and purchase of securities (KD1.1 billion in 2008) has been included in Other Assets as against Claims on Corporates. The corresponding amount (KD943 million) was included in Claims on Corporates last year.

CREDIT RISK EXPOSURES (CONTINUED)

Geographical Distribution of Average Gross Credit Risk Exposures:

The average gross credit risk exposure for 2008 and 2007, broken down by geographical region and standard credit risk portfolio, and split between funded and unfunded exposure is shown below.

Total gross credit risk exposures as at 31 December 2008 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	23,855	-	-	-	-	-	23,855
Claims on sovereigns	574,146	146,702	-	-	94,423	-	815,271
Claims on public sector entities (PSEs)	-	190,182	51,289	-	-	-	241,471
Claims on Banks	193,579	675,378	75,229	9,480	97,724	2,576	1,053,966
Claims on corporates	2,587,295	694,238	63,366	67,415	90,657	74,116	3,577,087
Regulatory retail exposures	701,060	1,779	203	15	97	265	703,419
Past due exposures	67,829	-	-	-	-	-	67,829
Other assets	1,190,996	10,762	41,048	6,962	6,095	109,358	1,365,221
	5,338,760	1,719,041	231,135	83,872	288,996	186,315	7,848,119
Percentage of gross exposure by geographical region	68.0%	21.9%	2.9%	1.1%	3.7%	2.4%	100.0%

Total gross credit risk exposures as at 31 December 2007 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	21,354	-	-	-	-	-	21,354
Claims on sovereigns	919,887	104,652	-	-	40,264	-	1,064,803
Claims on public sector entities (PSEs)	-	142,758	14,313	-	-	13,687	170,758
Claims on Banks	7,225	191,604	86,796	12,381	92,872	248,330	639,208
Claims on corporates	2,883,713	433,782	67,443	-	7,103	52,829	3,444,870
Regulatory retail exposures	656,400	17,586	140	9	49	250	674,434
Past due exposures	27,215	-	-	-	-	4	27,219
Other assets	234,929	9,226	2,679	195	-	189,134	436,163
	4,750,723	899,608	171,371	12,585	140,288	504,234	6,478,809
Percentage of gross exposure by geographical region	73.3%	13.9%	2.6%	0.2%	2.2%	7.8%	100.0%

CREDIT RISK EXPOSURES (CONTINUED)

Funded (On balance - sheet) credit facilities (Average) as at 31 December 2008 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	23,855	-	-	-	-	-	23,855
Claims on sovereigns	574,135	-	-	-	-	-	574,135
Claims on public sector entities (PSEs)	-	46,627	28,767	-	-	-	75,394
Claims on Banks	187,432	585,250	55,036	6,457	2,298	45	836,518
Claims on corporates	1,513,866	73,175	62	-	5,040	74,116	1,666,259
Regulatory retail exposures	677,703	1,682	181	15	96	265	679,942
Past due exposures	65,245	-	-	-	-	-	65,245
Other assets	1,040,208	10,762	41,048	6,962	6,095	109,358	1,214,433
	4,082,444	717,496	125,094	13,434	13,529	183,784	5,135,781
Percentage of gross exposure by geographical region	79.5%	14.0%	2.4%	0.3%	0.3%	3.5%	100.0%

Funded (On balance - sheet) credit facilities (Average) as at 31 December 2007 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	21,354	-	-	-	-	-	21,354
Claims on sovereigns	919,870	-	-	-	-	-	919,870
Claims on public sector entities (PSEs)	-	22,351	14,313	-	-	13,687	50,351
Claims on Banks	-	130,292	70,707	9,969	1,682	246,244	458,894
Claims on corporates	1,893,469	77,883	4,875	-	2,864	52,829	2,031,920
Regulatory retail exposures	635,404	17,507	140	9	49	250	653,359
Past due exposures	23,329	-	-	-	-	4	23,333
Other assets	175,029	9,226	2,679	195	-	189,134	376,263
	3,668,455	257,259	92,714	10,173	4,595	502,148	4,535,344
Percentage of gross exposure by geographical region	80.9%	5.7%	2.0%	0.2%	0.1%	11.1%	100.0%

CREDIT RISK EXPOSURES (CONTINUED)

Unfunded (Off- Balance sheet) Credit Facilities (Average) as at 31 December 2008 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	11	146,702	-	-	94,423	-	241,136
Claims on public sector entities (PSEs)	-	143,555	22,522	-	-	-	166,077
Claims on Banks	6,147	90,128	20,193	3,022	95,427	2,530	217,447
Claims on corporates	1,073,429	621,063	63,304	67,415	85,617	-	1,910,828
Regulatory retail exposures	23,357	97	22	0	1	-	23,477
Past due exposures	2,584	-	-	-	-	-	2,584
Other assets	150,788	-	-	-	-	-	150,788
	1,256,316	1,001,545	106,041	70,437	275,468	2,530	2,712,337
Percentage of gross exposure by geographical region	46.3%	36.9%	3.9%	2.6%	10.2%	0.1%	100.0%

Unfunded (Off- Balance sheet) Credit Facilities (Average) as at 31 December 2007 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	-	-	-	-	-	-	-
Claims on sovereigns	17	104,652	-	-	40,264	-	144,933
Claims on public sector entities (PSEs)	-	120,407	-	-	-	-	120,407
Claims on Banks	7,225	61,312	16,089	2,412	91,190	2,086	180,314
Claims on corporates	990,244	355,899	62,568	-	4,239	-	1,412,950
Regulatory retail exposures	20,996	79	-	-	-	-	21,075
Past due exposures	3,886	-	-	-	-	-	3,886
Other assets	59,900	-	-	-	-	-	59,900
	1,082,268	642,349	78,657	2,412	135,693	2,086	1,943,465
Percentage of gross exposure by geographical region	55.7%	33.1%	4.0%	0.1%	7.0%	0.1%	100.0%

The 2008 full year average figures show the same broad distribution as the year-end figures.

CREDIT RISK EXPOSURES (CONTINUED)

Industry Segment Distribution of Gross Credit Risk Exposures:

The industry segment split of the gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2008 and 31 December 2007 is shown below.

Total gross credit risk exposures as at 31 December 2008 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Const-ruction	Manu-facturing	Real estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	28,094	28,094
Claims on sovereigns	-	-	-	-	-	-	-	734,145	734,145
Claims on public sector entities (PSEs)	-	64,892	-	-	-	-	-	162,541	227,433
Claims on Banks	-	976,904	-	-	-	-	-	-	976,904
Claims on corporates	17,320	493,282	488,990	12,591	882,370	406,453	23,173	1,193,690	3,517,869
Regulatory retail exposures	621,448	320	20,035	206	20,602	2,977	8,491	9,717	683,796
Past due exposures	9,194	1,329	3,306	-	16,819	19,644	101,433	41,580	193,305
Other assets	131,834	30,667	27,889	-	18,203	4,024	963,386	220,307	1,396,310
	779,796	1,567,394	540,220	12,797	937,994	433,098	1,096,483	2,390,074	7,757,856
Percentage of gross exposure by Industry segment	10.1%	20.2%	7.0%	0.2%	12.1%	5.6%	14.1%	30.7%	100.0%

Total gross credit risk exposures as at 31 December 2007 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Const-ruction	Manu-facturing	Real estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	20,764	20,764
Claims on sovereigns	-	-	-	-	-	-	-	880,730	880,730
Claims on public sector entities (PSEs)	-	-	-	-	-	-	-	256,185	256,185
Claims on Banks	-	1,047,879	-	-	-	-	-	-	1,047,879
Claims on corporates	196,812	429,130	412,648	2,472	756,022	573,468	772,186	907,117	4,049,855
Regulatory retail exposures	613,721	-	9,563	62	10,573	6,933	5,384	13,354	659,590
Past due exposures	6,679	-	8,934	-	4,788	2,027	1,632	538	24,598
Other assets	-	626	17,283	-	52,253	3,329	103,695	360,928	538,114
	817,212	1,477,635	448,428	2,534	823,636	585,757	882,897	2,439,616	7,477,715
Percentage of gross exposure by Industry segment	10.9%	19.8%	6.0%	0.1%	11.0%	7.8%	11.8%	32.6%	100.0%

CREDIT RISK EXPOSURES (CONTINUED)

Residual Maturity Distribution of Gross Credit Risk Exposures:

The residual maturity of the gross credit risk exposure, broken down by standard credit risk portfolio and split between funded and unfunded facilities, as at 31 December 2008 and 31 December 2007 is shown below.

Total gross credit risk exposure as at 31 December 2008 - Residual Maturity

(KD Thousands)	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	28,094	-	-	-	-	-	28,094
Claims on sovereigns	94,776	52,929	108,627	217,992	75,332	184,489	734,145
Claims on public sector entities (PSEs)	-	-	-	13,490	63,611	150,332	227,433
Claims on Banks	305,503	27,214	381,281	126,506	66,571	69,829	976,904
Claims on corporates	896,536	646,258	975,902	442,029	253,929	303,215	3,517,869
Regulatory retail exposures	44,201	15,673	14,406	15,903	32,190	561,423	683,796
Past due exposures	193,305	-	-	-	-	-	193,305
Other assets	242,795	193,599	263,466	270,720	185,945	239,785	1,396,310
	1,805,210	935,673	1,743,682	1,086,640	677,578	1,509,073	7,757,856
Percentage of gross exposure by residual Contractual maturity	23.3%	12.1%	22.5%	14.0%	8.7%	19.4%	100.00%

Total gross credit risk exposure as at 31 December 2007 - Residual Maturity

(KD Thousands)	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	20,764	-	-	-	-	-	20,764
Claims on sovereigns	79,391	220,007	106,912	184,258	77,412	212,750	880,730
Claims on public sector entities (PSEs)	-	-	-	44,363	13,345	198,477	256,185
Claims on Banks	524,199	220,059	108,253	54,894	74,292	66,182	1,047,879
Claims on corporates	636,549	708,847	876,364	772,681	556,344	499,070	4,049,855
Regulatory retail exposures	32,552	9,377	11,547	12,954	32,009	561,151	659,590
Past due exposures	24,598	-	-	-	-	-	24,598
Other assets	41,987	10,122	49,061	82,232	15,945	338,767	538,114
	1,360,040	1,168,412	1,152,137	1,151,382	769,347	1,876,397	7,477,715
Percentage of gross exposure by residual Contractual maturity	18.2%	15.6%	15.4%	15.4%	10.3%	25.1%	100.00%

IMPAIRED LOANS AND PROVISIONS

Impaired Loans and Provisions by Industry Segment:

The industry segment split of impaired loans (past due portion and balance outstanding) and the associated provisions (specific, general and total) as at 31 December 2008 and 31 December 2007 is shown below.

Impaired loans and provisions (by industry segment) at 31 December 2008

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Personal	9,191	39,146	29,968	11,981	41,949	76.6%
Financial	1,329	7,629	6,300	30,949	37,249	82.6%
Trade and commerce	2,100	3,377	1,279	5,241	6,520	37.9%
Crude oil and gas	-	394	394	167	561	100.0%
Construction	16,546	29,064	19,212	11,001	30,213	66.1%
Manufacturing	19,180	27,547	8,369	4,648	13,017	30.4%
Real estate	99,432	100,627	1,195	11,606	12,801	1.2%
Government	-	1,424	1,424	425	1,849	100.0%
Others	37,661	273,309	236,208	5,633	241,841	86.4%
Total	185,439	482,517	304,349	81,651	386,000	63.1%

Impaired loans and provisions (by industry segment) at 31 December 2007

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Personal	7,892	25,426	17,534	15,425	32,959	69.0%
Financial	-	5,932	5,932	11,388	17,320	100.0%
Trade and commerce	8,652	9,088	446	7,071	7,517	4.9%
Crude oil and gas	-	390	390	168	558	100.0%
Construction	880	3,589	2,766	13,068	15,834	77.1%
Manufacturing	150	777	629	6,326	6,955	81.0%
Real estate	1,542	1,793	251	12,286	12,537	14.0%
Government	-	1,318	1,318	861	2,179	100.0%
Others	4,649	8,019	3,374	8,643	12,017	42.1%
Total	23,765	56,332	32,640	75,236	107,876	57.9%

Non-performing loans ('NPL's') increased by KD426.2 million in 2008, from KD56.3 million at 31 December 2007 to KD482.5 million at 31 December 2008. Out of the total increase of KD426.2 million, KD200.8 million is on account of receivables of Structured Derivative Products that resulted in the loss of similar amount in October 2008.

IMPAIRED LOANS AND PROVISIONS (CONTINUED)

Provisions Charge by Industry Segment:

The industry segment split of the provision charges and write-offs in 2008 are shown below.

Provision Charges and Write - offs during 2008 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD Thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	12,149	(3,444)	8,705	215
Financial	186	19,561	19,747	
Trade and commerce	833	(1,830)	(997)	
Crude oil and gas	4	(1)	3	
Construction	16,446	(2,067)	14,379	
Manufacturing	7,740	(1,678)	6,062	
Real estate	944	(680)	264	
Government	106	(436)	(330)	
Others	232,834	(3,010)	229,824	
Total	271,242	6,415	277,657	215

Provision Charges and Write - offs during 2007 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD Thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	8,022	1,334	9,356	192
Financial	127	(910)	(783)	
Trade and commerce	(86)	(1,060)	(1,146)	
Crude oil and gas	(23)	(93)	(116)	
Construction	281	245	526	
Manufacturing	338	257	595	
Real estate	(61)	3,313	3,252	
Government	28	(640)	(612)	
Others	42	4,377	4,419	
Total	8,668	6,823	15,491	192

The total net provisions charge in 2008 of KD277.7 million comprised specific provisions of KD271.2 million. The increases in specific provisions in "Others" category pertains mainly to a one-off provision for impairment of Structured Products Receivables.

IMPAIRED LOANS AND PROVISIONS (CONTINUED)

Impaired Loans and Provisions by Geographical Segments:

The geographical split of impaired (i.e. non-performing) loans and the associated provisions cover as at 31 December 2008 and 31 December 2007 is shown below.

Impaired loans and provisions (by Geographical Region) at 31 December 2008

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	185,439	469,946	291,778	77,148	368,926	62.1%
Other Middle East	-	11,128	11,128	3,206	14,334	100.0%
Western Europe	-	19	19	517	536	100.0%
U S A & Canada	-	-	-	16	16	0.0%
Asia Pacific	-	-	-	99	99	0.0%
Rest of World	-	1,424	1,424	665	2,089	100.0%
Total	185,439	482,517	304,349	81,651	386,000	63.1%

Impaired loans and provisions (by Geographical Region) at 31 December 2007

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	23,765	43,915	20,223	67,388	87,611	46.1%
Other Middle East	-	11,075	11,075	4,718	15,793	100.0%
Western Europe	-	24	24	1,494	1,518	100.0%
U S A & Canada	-	-	-	10	10	0.0%
Asia Pacific	-	-	-	410	410	0.0%
Rest of World	-	1,318	1,318	1,216	2,534	100.0%
Total	23,765	56,332	32,640	75,236	107,876	57.9%

Movement in Provisions for Impaired Loans:

The movements in the provisions for loan impairment between 31 December 2007 and 31 December 2008 are given in Note 14 to the Financial Statements.

CREDIT EXPOSURE

Total Credit Exposure after applying Credit conversion factor but before Credit Risk Mitigation:

The total credit exposure after applying the relevant Basel II standardised approach credit conversation factors ('CCF') but before credit risk mitigation ('CRM') as at 31st December 2008 and 31st December 2007, broken down by standard credit risk portfolio, is shown below.

GROSS CREDIT RISK EXPOSURE BEFORE CRM AS AT 31 DECEMBER 2008

	GROSS CREDIT EXPOSURE			CREDIT EXPOSURE BEFORE CRM			
(KD Thousands)	FUNDED	UNFUNDED	TOTAL	FUNDED CREDIT EXPOSURE	UNFUNDED CREDIT AFTER CCF	FX CONTRACTS AFTER CCF	TOTAL BEFORE CRM
Cash items	28,094	-	28,094	28,094	-	-	28,094
Claims on sovereigns	515,926	218,219	734,145	515,926	218,219	93	734,238
Claims on public sector entities (PSEs)	37,561	189,872	227,433	37,561	176,207	-	213,768
Claims on banks	735,338	241,566	976,904	735,338	136,004	627	871,969
Claims on corporates	1,722,234	1,795,635	3,517,869	1,722,234	754,680	295	2,477,209
Regulatory retail exposures	646,967	36,829	683,796	646,967	15,394	-	662,361
Past due exposures	185,439	7,866	193,305	185,439	3,875	-	189,314
Other assets	1,131,318	264,992	1,396,310	1,131,318	213,185	-	1,344,503
	5,002,877	2,754,979	7,757,856	5,002,877	1,517,564	1,015	6,521,456

CREDIT EXPOSURE (CONTINUED)

GROSS CREDIT RISK EXPOSURE BEFORE CRM AS AT 31 DECEMBER 2007

	GROSS CREDIT EXPOSURE			CREDIT EXPOSURE BEFORE CRM			
(KD Thousands)	FUNDED	UNFUNDED	TOTAL	FUNDED CREDIT EXPOSURE	UNFUNDED CREDIT AFTER CCF	FX CONTRACTS AFTER CCF	TOTAL BEFORE CRM
Cash items	20,764	-	**20,764**	20,764	-	-	**20,764**
Claims on sovereigns	647,098	233,632	**880,730**	647,098	233,626	192	**880,916**
Claims on public sector entities (PSEs)	100,438	155,747	**256,185**	100,438	155,747	-	**256,185**
Claims on banks	858,145	189,734	**1,047,879**	858,145	113,948	6,017	**978,109**
Claims on corporates	2,398,198	1,651,657	**4,049,855**	2,398,198	692,513	1,575	**3,092,286**
Regulatory retail exposures	636,577	23,013	**659,590**	636,577	9,377	-	**645,954**
Past due exposures	23,765	833	**24,598**	23,765	417	-	**24,182**
Other assets	448,584	89,530	**538,114**	448,584	52,254	-	**500,838**
	5,133,569	**2,344,146**	**7,477,715**	**5,133,569**	**1,257,882**	**7,784**	**6,399,234**

Credit Risk Mitigation: (CRM)

Under the Basel II standardised approach for credit risk, credit risk mitigation ('CRM') techniques are used to reduce the risk-weighted amount of credit risk exposures for capital adequacy purposes. CBK have instructed the banks in Kuwait to use the 'comprehensive approach' for CRM, whereby the gross credit exposure is effectively reduced by the value ascribed to the collateral. Three types of CRM techniques are recognised by CBK: eligible financial collateral (such as cash deposits and equities listed on a recognised stock exchange); legally enforceable on-balance-sheet netting arrangements for loans and deposits; and unconditional, irrevocable guarantees. During 2008, CBK eased its collateral norms allowing 50% of Real estate collateral to be eligible for set-off against credit risk weighted assets, if it is valued by two independent valuers.

Effective June 2008, CBK revised Basel II Capital Adequacy norms whereby, it increased the risk weight on consumer and installment loans (housing), and debit balances of credit cards from 75% to 100% and applying risk weight at 150% for credit facilities granted by banks to finance real estate activities and purchase of securities.

Gulf Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimise credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with Gulf Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

Collaterals consist primarily of equities listed on the Kuwait Stock Exchange; real estate (land and

CREDIT EXPOSURE (CONTINUED)

buildings); fixed term deposits and cash balances with Gulf Bank that are blocked and legally pledged in the Bank's favour; and direct, explicit, irrevocable and unconditional bank guarantees. In certain cases, personal/corporate guarantees from high net worth individuals or companies are also used to help secure credit facilities. The personal/ corporate guarantees do not constitute eligible CRM techniques for capital adequacy purposes under the Basel II standardised approach.

The Bank's credit procedures include very conservative minimum collateral coverage ratios, supported by strict top-up ratios. When the value of the collateral held in respect of a particular loan falls below the initial prescribed collateral coverage ratio and reaches the top up ratio threshold, the customer is requested to provide additional collateral in order to restore the prescribed collateral coverage ratio. Real estate collateral is valued once a year by independent real estate valuers (the lowest of two valuations being taken) and quoted shares are valued daily using current stock exchange prices.

The liquidity of the collateral taken by the Bank has been significantly enhanced in recent years through the introduction of a portfolio scheme whereby the collateral (typically local shares or real estate) is held by an approved portfolio manager who is independent of the Bank. As part of the collateral management scheme, the customer provides a power of attorney authorising the Bank to liquidate the portfolio of collateral at the Bank's discretion in the event of any default in the payment of the covered loan. The Bank actively promotes the adoption of the portfolio scheme for new lending and loan renewals and an increasing share of the collateral taken by the Bank is held in the portfolio scheme. This enhances the security of repayment and the liquidity of the Bank's collateral. The portfolio managers provide portfolio valuations weekly.

Consumer loans are generally not secured, but the credit risk is minimised by the 'assignment of salary' condition that requires the customer's employer (normally a Government Ministry) to pay their salary directly to their Gulf Bank account. Collateral or security, normally in the form of a blocked customer deposit with Gulf Bank, the assignment of an employment 'End of Service Benefit' or a personal guarantee, is taken on the rare occasions when consumer loans are granted without an assignment of salary.

CREDIT EXPOSURE (CONTINUED)

Total Credit Exposure after Credit Risk Mitigation (CRM) and Resulting Credit Risk Weighted Assets:

The exposure after CRM, as at 31st December 2008 and 31st December 2007 and the resulting credit risk-weighted assets are further divided into rated and unrated exposures are given below:

CREDIT RISK EXPOSURE AFTER CRM; RISK-WEIGHTED ASSETS (RWAs) AS AT 31 DECEMBER 2008

	CREDIT EXPOSURE/CRM			RISK - WEIGHTED ASSETS		
(KD Thousands)	EXPOSURE BEFORE CRM	CRM	EXPOSURE AFTER CRM	RATED	UNRATED	TOTAL
Cash items	28,094	-	28,094	-	-	-
Claims on sovereigns	734,238	-	734,238	14,349	-	14,349
Claims on public sector entities (PSEs)	213,768	-	213,768	-	80,051	80,051
Claims on banks	871,969	781	871,188	135,046	235,135	370,181
Claims on corporates	2,477,209	1,022,771	1,454,438	-	1,454,438	1,454,438
Regulatory retail exposures	662,361	54,090	608,271	-	606,275	606,275
Past due exposures	189,314	-	189,314	-	182,510	182,510
Other assets	1,344,503	734,001	610,502	-	792,255	792,255
	6,521,456	1,811,643	4,709,813	149,395	3,350,664	3,500,059

CREDIT RISK EXPOSURE AFTER CRM; RISK-WEIGHTED ASSETS (RWAs) AS AT 31 DECEMBER 2007

	CREDIT EXPOSURE/CRM			RISK - WEIGHTED ASSETS		
(KD Thousands)	EXPOSURE BEFORE CRM	CRM	EXPOSURE AFTER CRM	RATED	UNRATED	TOTAL
Cash items	20,764	-	20,764	-	-	-
Claims on sovereigns	880,916	12	880,904	-	5,460	5,460
Claims on public sector entities (PSEs)	256,185	-	256,185	-	70,893	70,893
Claims on banks	978,109	22,690	955,419	286,183		286,183
Claims on corporates	3,092,286	1,802,890	1,289,396	-	1,289,396	1,289,396
Regulatory retail exposures	645,954	48,213	597,741	-	448,306	448,306
Past due exposures	24,182	-	24,182	-	24,171	24,171
Other assets	500,838	3,550	497,288	-	497,288	497,288
	6,399,234	1,877,355	4,521,879	286,183	2,335,514	2,621,697

Most of the CRM takes the form of eligible financial collateral, mainly equities listed on the Kuwait Stock Exchange and cash deposits.

TRADING PORTFOLIO

As defined in the Basel II guidelines, a trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.

Trading portfolio is limited to a modest amount of open currency position in the course of bank's Balance Sheet management and a limited amount of money market trading is also undertaken.

Gulf Bank uses the standardised approach for determining the capital required for market risk. The Bank does not use trading value at risk ('VAR') or an internal models approach for estimating and monitoring market risk exposure since the Bank's trading portfolio and open foreign exchange positions are limited.

Under the standardised approach, the risks subject to capital charges for market risk include the following: interest rate position risk relating to instruments in the trading book; equity position risk relating to instruments in the trading book; foreign exchange risk throughout the Bank; commodities risk throughout the Bank; and options. The capital charges for interest rate related instruments and equities apply to the market value of the items in the Bank's trading book. The capital charges for foreign exchange risk and commodities risk apply to the Bank's total currency and commodity positions (i.e. trading book and banking book).

Total market risk-weighted exposures are determined by multiplying the market risk capital charge by 8.33 (i.e. the reciprocal of the minimum CBK capital adequacy ratio requirement of 12%) and adding the resulting figure to the sum of credit and operational risk-weighted assets to yield the total risk-weighted exposures which are then used to calculate the Bank's capital adequacy ratio.

The details of the market risk capital charge for Gulf Bank as at 31 December 2008 and 31 December 2007 is shown in the following table.

Market Risk ***(KD thousands)***

Market Risk	**31-Dec-08**	31-Dec-07
Interest rate position risk	**1,764**	427
Equity position risk	**-**	-
Foreign exchange risk	**179**	174
Commodities risk	**-**	-
Options	**-**	-
Total Capital requirement for market risk	**1,943**	601
Market risk - weighted assets	**16,185**	5,005

The 31 December 2008 total market risk capital charge of KD1,943 thousand was equivalent to market risk-weighted assets of KD16.1 million. Market risk-weighted assets were KD11.2 million higher than Dec 2007.

OPERATIONAL RISK

Under the Basel II standardised approach for operational risk, a bank's activities are divided into eight business lines: corporate finance, trading and sales, retail banking, commercial banking, payment and settlement, agency services, asset management, and retail brokerage. Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of the business lines. The operational risk capital charge for each business line is therefore calculated by multiplying its gross income by a factor (denoted beta) assigned to that business line. The beta serves as a proxy for the industry-wide relationship between the operational risk loss experience for a given business line and the aggregate gross income for that business line. The total operational risk capital charge is calculated as the summation of the three-year average gross income multiplied by the beta factor across each of the business lines in each year. The beta factors set by the Basel Committee, and used by CBK in the implementation of the standardised approach to operational risk in Kuwait, are: 18% (corporate finance, trading and sales, and payment and settlement); 15% (commercial banking and agency services); and 12% (retail banking, asset management, and retail brokerage).

Total operational risk-weighted exposures are determined by multiplying the operational risk capital charge by 8.33 (i.e. the reciprocal of the minimum CBK capital adequacy ratio requirement of 12%) and adding the resulting figure to the sum of credit and market risk-weighted assets to yield the total risk-weighted exposures which are then used to calculate the Bank's capital adequacy ratio.

Gulf Bank's business activities are mapped into the following three business lines: trading and sales, commercial banking and retail banking. The Bank's internal funds transfer pricing methodology is used to allocate interest income and interest expense between the three business lines. Senior management are responsible for the Bank's mapping policy and the Board of Directors approves the mapping.

The details of the operational risk capital charge for Gulf Bank as at 31 December 2008 are shown in the following tables.

Operational Risk as at 31 December 2008 *(KD thousands)*

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	**37,917**	**18%**	**6,825**
Commercial banking	**59,939**	**15%**	**8,991**
Retail banking	**51,976**	**12%**	**6,237**
Total	**149,832**		**22,053**
Operational risk weighted exposure			**183,701**

Operational Risk as at 31 December 2007 *(KD thousands)*

	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	29,644	18%	5,336
Commercial banking	55,561	15%	8,334
Retail banking	52,829	12%	6,339
Total	**138,034**		**20,010**
Operational risk weighted exposure			**166,680**

In accordance with the Basel II guidelines, gross income includes net interest income and non-interest income, but excludes realised profits from the sale of securities in the banking book.

The 31 December 2008 total operational risk capital charge of KD22.1 million was equivalent to operational risk-weighted exposure of KD183.7 million.

EQUITY RISK IN THE BANKING BOOK

Gulf Bank does not trade equities. All of the Bank's investment securities are held in the banking (i.e. non-trading) book and are classified as 'available for sale' financial assets, i.e. they represent assets 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, exchange rates or equity prices. In accordance with IAS 39, the assets are initially recognised at fair value and the subsequent unrealised gains and losses arising from changes in fair value are taken to the fair value reserve in equity. When the asset is disposed of, the related accumulated fair value adjustments are transferred to the income statement as gains or losses.

The fair values of quoted instruments are based on the quoted closing bid prices or by using the current market rate of interest for the instrument. The fair values of unquoted instruments require significant estimation. The fair values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of the investment securities held at 31 December 2008 is shown below, along with the cumulative unrealised gains in the fair value reserve in equity and the regulatory capital implications. The income statement realisation gain from disposals made in 2008 is also shown.

Information related to the licensed bank's equity position in the banking book - 31-Dec-08

(KD Thousands)	Publicly Traded	Privately Traded	Total investment Securities
Fair value of investment securities			
Debt securities	-		-
Equity securities	4,897	151,195	156,092
Total fair value of investment securities	4,897	151,195	156,092
Unrealised gains in equity	3,156	7,463	10,619
Latent revaluation gains	-	-	-
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	1,420	3,358	4,779
Regulatory capital requirement	417	17,740	18,158
Income statement details			
Income from disposal of investment securities	4,358	(7,735)	(3,377)

EQUITY RISK IN THE BANKING BOOK (CONTINUED)

Information related to the licensed bank's equity position in the banking book - 31-Dec-07

(KD Thousands)	Publicly Traded	Privately Traded	Total investment Securities
Fair value of investment securities			
Debt securities	-	-	**-**
Equity securities	2,290	240,587	**242,877**
Total fair value of investment securities	**2,290**	**240,587**	**242,877**
Unrealised gains in equity	1,255	7,612	**8,867**
Latent revaluation gains	-	-	**-**
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	565	3,425	**3,990**
Regulatory capital requirement	207	28,459	**28,666**
Income statement details			
Income from disposal of investment securities	850	47,877	**48,727**

INTEREST RATE RISK IN THE BANKING BOOK

Future net interest income is affected by movements in interest rates and a principal part of the Bank's management of market risk in the banking (i.e. non-trading) book is to manage the sensitivity of the Bank's net interest income to changes in market interest rates.

The sensitivity of net interest income to interest rate changes is provided in note 28 (B) to the financial statements.

“To reach your destination, sometimes you need to ride the waves of the sea”

GULF BANK ANNUAL REPORT 2008

Financial Statements

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF GULF BANK K.S.C.

We have audited the accompanying financial statements of Gulf Bank K.S.C. ('the Bank'), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk 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 in 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2008 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 Bank and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as

INDEPENDENT AUDITORS' REPORT (CONTINUED)

amended, and by the Bank's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Bank or on its financial position. In this connection, we also draw attention to the matters stated in Note 34 to the financial statements.

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

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

BADER A. AL WAZZAN
LICENCE NO. 62 A
PRICEWATERHOUSECOOPERS

17 FEBRUARY 2009
KUWAIT

INCOME STATEMENT

Year Ended 31 December 2008

	NOTES	2008 KD 000's	2007 KD 000's
Interest income	3,5	**332,564**	315,305
Interest expense	4	**214,416**	208,753
Net interest income		**118,148**	106,552
Net fees and commissions	7	**27,392**	23,424
Net (loss) / gains from dealing in foreign currencies and derivatives	8	**(61,331)**	14,957
Dividend income		**1,999**	773
Realised (loss) /gains from disposal of investments available for sale		**(3,377)**	48,727
Impairment loss on investments available for sale	15	**(65,720)**	-
Other income	9	**305**	1,139
OPERATING INCOME		**17,416**	195,572
Staff expenses		**24,752**	22,125
Occupancy costs		**2,126**	1,786
Depreciation		**2,484**	2,171
Other expenses		**13,358**	10,279
Operating expenses		**42,720**	36,361
OPERATING (LOSS) / PROFIT BEFORE PROVISIONS		**(25,304)**	159,211
Charge (release) of provisions			
- specific	6	**327,349**	8,668
- general	14	**6,415**	6,823
Loans written down	5	**-**	8,391
		333,764	23,882
OPERATING (LOSS) / PROFIT		**(359,068)**	135,329
Contribution to Kuwait Foundation for the Advancement of Sciences		**-**	1,354
Directors' emoluments	25	**9**	108
National Labour Support Tax		**439**	3,347
Zakat		**-**	83
(LOSS) / PROFIT FOR THE YEAR	34	**(359,516)**	130,437
(LOSS) / EARNINGS PER SHARE			
Basic (loss) / earning per share (Fils)	10	**(293)**	106

The attached notes 1 to 34 form part of these financial statements.

BALANCE SHEET

As at 31 December 2008

	NOTES	2008 KD 000's	2007 KD 000's
ASSETS			
Cash and short term funds	11	**381,921**	584,266
Treasury bonds	12	**426,597**	412,907
Central Bank of Kuwait bonds	13	**24,983**	175,925
Deposits with banks and other financial institutions		**413,926**	313,741
Loans and advances to banks	14	**31,973**	37,993
Loans and advances to customers	14	**3,448,322**	3,268,796
Investments available for sale	15	**156,092**	242,879
Other assets	16	**39,968**	23,133
Premises and equipment		**23,665**	23,269
TOTAL ASSETS		**4,947,447**	5,082,909
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Bank of Kuwait	34	**80,000**	-
Due to banks	17	**91,509**	301,646
Deposits from financial institutions	17	**658,508**	874,465
Customer deposits	18	**3,825,721**	3,191,329
Floating rate notes	19	**-**	54,600
Subordinated loans	20	**82,785**	81,900
Other liabilities	21	**170,936**	88,345
Total liabilities		**4,909,459**	4,592,285
EQUITY			
Share capital	22	**125,385**	109,030
Proposed bonus shares	25	**-**	16,355
Statutory reserve	23	**89,438**	89,438
General reserve	23	**2,356**	2,356
Share premium	23	**46,044**	46,044
Property revaluation reserve	23	**15,528**	15,159
Treasury share reserve	24	**27,979**	27,928
Fair valuation reserve		**10,619**	8,867
(Accumulated deficit) / retained earnings		**(233,957)**	125,559
		83,392	440,736
Treasury shares	24	**(45,404)**	(19,932)
		37,988	420,804
Proposed dividend	25	**-**	69,820
		37,988	490,624
TOTAL LIABILITIES AND EQUITY		**4,947,447**	5,082,909

Kutayba Y. Alghanim

(Chairman)

Louis Myers

(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 34 form part of these financial statements.

CASH FLOW STATEMENT

Year Ended 31 December 2008

	NOTES	2008 KD 000's	2007 KD 000's
OPERATING ACTIVITIES			
(Loss) / profit for the year		**(359,516)**	130,437
Adjustments:			
Dividend income		**(1,999)**	(773)
Realised loss/(gains) from disposal of investments available for sale		**3,377**	(48,727)
Depreciation		**2,484**	2,171
Effective interest rate adjustment		**-**	11,309
Loans written down		**-**	8,391
Impairment loss on investment securities		**65,720**	-
Provisions for impairment		**333,764**	15,491
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**43,830**	118,299
(Increase) decrease in operating assets:			
Treasury bonds		**(13,690)**	(97,394)
Central Bank of Kuwait bonds		**150,942**	(56,760)
Deposits with banks and other financial institutions		**(100,185)**	(183,867)
Loans and advances to banks		**6,020**	10,078
Loans and advances to customers		**(450,511)**	(764,353)
Other assets		**(72,942)**	(1,072)
Increase (decrease) in operating liabilities:			
Due to banks		**(210,137)**	72,617
Deposits from financial institutions		**(215,957)**	501,949
Customer deposits		**634,392**	352,549
Floating rate notes		**(54,600)**	(3,228)
Subordinated loans		**885**	(4,842)
Other liabilities		**75,919**	10,809
NET CASH USED IN OPERATING ACTIVITIES		**(206,034)**	(45,215)
INVESTING ACTIVITIES			
Purchase of investments available for sale		**(132,899)**	(227,472)
Proceeds from sale of investments available for sale		**152,341**	182,639
Purchase of premises and equipment		**(2,511)**	(2,770)
Dividends received		**1,999**	773
NET CASH FROM (USED IN) INVESTING ACTIVITIES		**18,930**	(46,830)
FINANCING ACTIVITIES			
Due to Central Bank of Kuwait		**80,000**	-
Dividends paid		**(69,820)**	(55,449)
Purchase of treasury shares		**(25,661)**	(4,298)
Sale of treasury shares		**240**	27,770
NET CASH USED IN FINANCING ACTIVITIES		**(15,241)**	(31,977)
NET (DECREASE) IN CASH AND SHORT TERM FUNDS		**(202,345)**	(124,022)
CASH AND SHORT TERM FUNDS AT 1 JANUARY		**584,266**	708,288
CASH AND SHORT TERM FUNDS AT 31 DECEMBER	11	**381,921**	584,266

The attached notes 1 to 34 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2008

	Share Capital KD 000's	Proposed Bonus Shares KD 000's	RESERVES Statutory Reserve KD 000's	General Reserve KD 000's	Share Premium KD 000's	Property Revaluation Reserve KD 000's	Treasury Share Reserve KD 000's	Fair Valuation Reserve KD 000's	Accumulated deficit / Retained Earnings KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Proposed Dividend KD 000's	Total KD 000's
At 31 December 2006	94,809	14,221	75,905	2,356	46,044	11,781	17,710	18,932	94,893	267,621	(33,186)	55,386	398,851
Effect of changes in fair value of investments available for sale	-	-	-	-	-	-	-	28,248	-	28,248	-	-	28,248
Net realised gains during the year	-	-	-	-	-	-	-	(38,313)	-	(38,313)	-	-	(38,313)
Surplus on revaluation of properties	-	-	-	-	-	3,378	-	-	-	3,378	-	-	3,378
Income and expense directly recognised in equity	-	-	-	-	-	3,378		(10,065)	-	(6,687)	-	-	(6,687)
Profit for the year	-	-	-	-	-	-	-	-	130,437	130,437	-	-	130,437
Total recognised income and expense for the year	-	-	-	-	-	3,378		(10,065)	130,437	123,750	-	-	123,750
Issue of capital	14,221	(14,221)	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(4,298)	-	(4,298)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	17,552	-	17,552
Profit on sale of treasury shares	-	-	-	-	-	-	10,218	-	-	10,218	-	-	10,218
Transfer from profit	-	-	13,533	-	-	-	-	-	(13,533)	-	-	-	-
Proposed bonus shares	-	16,355	-	-	-	-	-	-	(16,355)	(16,355)	-	-	-
Proposed dividend	-	-	-	-	-	-	-	-	(69,820)	(69,820)	-	69,820	-
Dividend paid	-	-	-	-	-	-	-	-	(63)	(63)	-	(55,386)	(55,449)
At 31 December 2007	109,030	16,355	89,438	2,356	46,044	15,159	27,928	8,867	125,559	315,351	(19,932)	69,820	490,624
Effect of changes in fair value of investments available for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(66,310)**	**-**	**(66,310)**	**-**	**-**	**(66,310)**
Net realised loss during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**7,687**	**-**	**7,687**	**-**	**-**	**7,687**
Impairment provision during the year								**60,375**		**60,375**			**60,375**
Surplus on revaluation of properties	**-**	**-**	**-**	**-**	**-**	**369**		**-**	**-**	**369**	**-**	**-**	**369**
Income and expense directly recognised in equity	**-**	**-**	**-**	**-**	**-**	**369**		**1,752**	**-**	**2,121**	**-**	**-**	**2,121**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(359,516)**	**(359,516)**	**-**	**-**	**(359,516)**
Total recognised income and expense for the year	**-**	**-**	**-**	**-**	**-**	**369**		**1,752**	**(359,516)**	**(357,395)**	**-**	**-**	**(357,395)**
Issue of capital	**16,355**	**(16,355)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Purchase of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(25,661)**	**-**	**(25,661)**
Sale of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**189**	**-**	**189**
Profit on sale of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**51**	**-**	**-**	**51**	**-**	**-**	**51**
Transfer from profit	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(69,820)**	**(69,820)**
At 31 December 2008	**125,385**	**-**	**89,438**	**2,356**	**46,044**	**15,528**	**27,979**	**10,619**	**(233,957)**	**(41,993)**	**(45,404)**	**-**	**37,988**

The attached notes 1 to 34 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (the Bank) is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. Its registered office is at Mubarak Al Kabir Street, PO Box 3200, 13032 Safat, Kuwait. The financial statements for the year ended 31 December 2008 have been approved for issue by the Board of Directors on 17 February 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards (IFRS) except for the IAS 39 requirement for collective provision, which has been replaced by the Central Bank of Kuwait's requirement for a minimum general provision as described under the accounting policy for impairment and uncollectability of financial assets.

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

The financial statements have been presented in Kuwaiti Dinars rounded off to the nearest thousand. These financial statements are subject to the approval of the shareholders at the Annual General Meeting.

These financial statements have been prepared on a going concern basis since the rights issue as described in note 34 was fully subscribed to and the minimum capital adequacy ratio was achieved.

The accounting policies are consistent with those used in the previous year.

Changes in accounting policy and disclosures

International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued and adopted by the Bank:

- Amendments to IAS 39, Financial Instrument: Recognition and Measurement

The adoption of this amendment did not have any material effect on the financial performance or position of the Bank.

IASB Standards, amendments and IFRIC Interpretations issued, but not yet mandatory and have not been adopted yet. These IASB Standards, amendments and IFRIC Interpretations issued are effective from 1 January 2009.

IAS 1: Presentation of Financial Statements

IFRS 8: Operating Segments

Amendments to IAS 16: Property, Plant and Equipment

Amendment to IAS 19: Employee Benefits

Amendments to IAS 36: Impairment of Asset

The adoption of IAS 1 and IFRS 8 will result in amendments to the presentation of the financial statements of the Bank.

The adoption of amendments to other standards is not expected to have a material impact on the financial statements of the Bank.

b. Financial instruments

Classification, recognition/de-recognition and measurement of financial instruments

Classification

In accordance with the revised IAS 39, the Bank classifies its financial assets as "at fair value through income statement", "loans and receivables" and "available for sale"; and its financial liabilities as "non-trading financial liabilities".

Financial assets "carried at fair value through income statement" are divided into two sub categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a fair value basis in accordance with a documented investment strategy. Derivatives are also classified as "held for trading" unless they are designated as hedges and are effective hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial assets which are not classified as above are classified as "available for sale", and are principally those 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, exchange rates or equity prices.

Financial liabilities, which are not held for trading, are classified as "non-trading financial liabilities".

Management determines the classification of these financial instruments at the time of acquisition.

Recognition/de-recognition

A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is derecognised where:

- o the contractual rights to receive cash flows from the asset have expired, or
- o the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- o the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability and difference in the irrespective carrying amount is recognised in the income statement.

All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date that the Bank receives or delivers the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement, or in equity in accordance with the policy applicable to the related instrument. 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.

Measurement

All financial instruments are initially recognised at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through the income statement.

On subsequent re-measurement, financial assets classified as "carried at fair value through income statement" are carried at fair value with resultant unrealised gains or losses arising from changes in

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

fair value included in the income statement. "Loans and receivables" are carried at amortised cost using the effective yield method less any provision for impairment. Those classified as "available for sale" are subsequently measured and carried at fair values. Unrealised gains and losses arising from changes in fair value of those classified as "available for sale" are taken to fair valuation reserve in equity.

Cash and balances with banks, treasury bonds, Central Bank of Kuwait bonds, loans and advances to banks and customers and certain other assets are classified as "loans and receivables".

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted instruments are measured at cost less impairment loss, if any. "Non-trading financial liabilities" are carried at amortised cost using the effective interest method.

When the "available for sale" asset is disposed of, or impaired, the related accumulated fair value adjustments previously recognised in equity are transferred to the income statement as gains or losses.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices or using the current market rate of interest for that instrument. Fair values for unquoted instruments are based on net asset values provided by the administrators of the fund, or are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. The fair value of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

The fair value of unquoted financial instruments is determined by reference to a significant third party transaction, or to the market value of a similar investment, or the expected discounted cash flows, brokers' quotes, or other appropriate valuation models.

The fair value of financial instruments carried at amortised cost is estimated by discounting the future cash flows at the current market interest rates for similar financial instruments.

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

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or a group of similar financial assets may be impaired. If such evidence exists, any impairment loss is recognised in the income statement.

Impairment is determined as follows:

a) for financial assets with fixed interest rates, carried at amortised cost, impairment is the difference between the carrying value and the present value of the estimated cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate; and for financial assets with variable interest rates, carried at amortised cost, discounted at the effective interest rate;

b) for financial assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the income statement;

c) for financial assets carried at cost, impairment is the difference between the carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

In addition, in accordance with Central Bank of Kuwait (CBK) instructions, a minimum general provision is made on all credit facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision.

In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

cash facilities and 0.5% for non-cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain categories of collateral during the reporting period. The general provision as at 1 January 2007 in excess of the present 1% for cash facilities and 0.5% for non-cash facilities would be retained as general provision until further directive from the Central Bank of Kuwait.

Financial assets are written off when there is no realistic prospect of recovery.

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and the Bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

c. Derivative financial instruments and hedging

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments including forward and swaps in the foreign exchange and money markets. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the balance sheet.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models as appropriate. Any changes in the fair value of derivatives that are held for trading are taken directly to the income statement and are disclosed in trading income. Derivatives held for trading also include those derivatives which do not qualify for hedge accounting described below.

For the purpose of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a forecast transaction.

In order to qualify for hedge accounting, the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item, and should be reliably measurable. At the inception of the hedge, the risk management objective and strategy is documented, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity and the ineffective portion is recognised in the income statement. For cash flow hedges affecting future transactions that subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in shareholders' equity are re-classified into the income statement in the same period or periods during which the financial asset or financial liability affects the income statement.

For hedges, which do not qualify for hedge

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, terminated or exercised, or it no longer qualifies for hedge accounting or the forecast transaction is no longer expected to occur or the designation is revoked. At that point in time, any cumulative gain or loss on the hedging instrument recognized in equity is kept there until the forecast transaction occurs. In cases where the forecast transaction is no longer expected to occur or the designation is revoked, the net cumulative gain or loss recognised in equity is transferred to the income statement. In the case of fair value hedges of interest-bearing financial instruments, any adjustment to its carrying value relating to the hedge is amortized over the remaining term to maturity.

d. Collateral pending sale

The Bank occasionally acquires property in settlement of certain loans and advances. Such property is stated at the lower of the carrying value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the income statement.

e. Provisions

Provisions are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation and the amount can be reliably estimated.

f. Treasury shares

Treasury shares consist of the Bank's own issued shares that have been reacquired by the Bank and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are sold, gains are credited to a separate account in equity, (the "treasury shares reserve"), which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

g. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income and fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective yield method, unless collectability is in doubt. Once a financial instrument categorised as 'loans and receivables' is impaired, interest is calculated based on expected future cash flows (excluding future credit losses that have not been incurred) used for the purpose of measuring the impairment.

Other fees receivable are recognised as the services are provided. Dividend income is recognised when the right to receive payment is established.

h. Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these financial statements.

i. Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Kuwaiti Dinars at the rates of exchange ruling at the balance sheet date. Forward exchange contracts are valued at the forward rates ruling at the balance sheet date. Any resultant gains or losses are taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Translation gains and losses on non-monetary items such as equities classified as available for sale financial assets are included in the fair valuation reserve in equity, unless part of an effective hedging strategy.

j. Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding one month.

k. Significant accounting judgements, estimates

Judgements

In the process of applying the Bank's accounting policies, management uses judgements, and makes estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates is as follows:

Classification of financial instruments

Management has to decide on acquisition of a financial instrument whether it should be classified as carried at fair value through income statement, available for sale or as loans and receivables. In making that judgement, the Bank considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgement determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the income statement or directly in equity.

Evidence of impairment in investments

The Bank treats available for sale equity instruments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Estimation uncertainty

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

Impairment losses on loans and advances and investment in debt instruments

The Bank reviews problem loans and advances and investment in debt instruments on an ongoing basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted financial instruments

Valuation of unquoted financial instruments is normally based on one of the following:

- Recent arm's length market transactions;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- Current fair value of another instrument that is substantially the same; or
- Valuation models.

The Bank calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

These values are computed based on significant assumptions including foreign exchange rates, interest rates and volatilities etc. The extent of changes to these rates and volatilities are dependent on market movements, which cannot be predicted with certainty.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. INTEREST INCOME

	2008 KD 000's	2007 KD 000's
Treasury bonds, Central Bank of Kuwait Bonds, and other investments	**19,609**	34,625
Placements with banks	**24,960**	33,517
Loans and advances to banks and customers (refer note 5)	**287,995**	247,163
	332,564	315,305

4. INTEREST EXPENSE

	2008 KD 000's	2007 KD 000's
Call accounts	**4,887**	4,257
Savings accounts	**2,146**	2,847
Time deposits	**192,385**	177,628
Bank borrowings	**14,998**	24,021
	214,416	208,753

5. EFFECTIVE INTEREST RATE ADJUSTMENT AND LOANS WRITTEN DOWN

Interest income has been reduced by KD214,241 during the year. The charge includes an adjustment 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, in accordance with Central Bank of Kuwait – Circular No. 2/105/10710 dated 19 November 2007.

An amount of KD136,611 has been charged to the income statement of current year. The charges represent the adjustment to the portfolio of loans, that have had their term modified during the year which has been computed based on revised estimates of future cash flows, discounted at original contracted rates of interest and write down of the principal balance amounts of the portfolio of loans, in accordance with Central Bank of Kuwait – Circular No. 2/105 dated 23 April 2008.

An amount of KD11,309,000 had been charged to the income statement in the previous year. The charge represented an adjustment to a portfolio of loans that had their terms modified during the pervious year in accordance with Central Bank of Kuwait - Circular No. 2/202/BS,BSA,RS,RSA/2007 dated 13 February 2007 and had been computed based on revised estimates of future cash flows, discounted at original contracted rates of interest.

An amount of KD8,391,000 had been charged to the income statement in the last quarter of the previous year. The charge represented a write down of the principal balance amounts of a portfolio of loans that had their terms modified during the pervious year in accordance with the Central Bank of Kuwait - Circular No. 2/202/BS,BSA,RS,RSA/2007 dated 13 February 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. SPECIFIC PROVISIONS

	2008 KD 000's	2007 KD 000's
Loan receivables and advances to customers	**70,442**	8,668
Provision for losses on receivable from a related party (Note 27)	**200,800**	-
Provision against fair value of open structured derivative transactions with certain customers (Note 16)	**56,107**	-
	327,349	8,668

Provision on loan receivables and advances to customers includes amount of KD576,270 that has been charged to the income statement in the last quarter of the year. The charge represented an adjustment to a portfolio of credit cards that had their terms modified during the year in accordance with Central Bank of Kuwait – Circular No. 2/BS/IBS/208/2007 dated 20 June 2007 and had been computed based on revised credit card limits determined.

7. NET FEES AND COMMISSION INCOME

	2008 KD 000's	2007 KD 000's
Total fees and commission income	**31,248**	26,346
Total fees and commission expense	**3,856**	2,922
Net fees and commission income	**27,392**	23,424

8. NET (LOSS) / GAINS FROM DEALING IN FOREIGN CURRENCIES AND DERIVATIVES

	2008 KD 000's	2007 KD 000's
Incomes from structured derivative transactions	**5,298**	2,263
Realised fair value gain on structured derivative transactions with a Customer (Note 34)	**200,800**	-
Unrealised fair value gain on structured derivative transactions with customers (Note 34)	**56,107**	-
Realised losses from structured derivative transactions on behalf of customers	**(267,934)**	-
Unrealised fair value losses and income on credit default swaps	**(57,608)**	(526)
Others	**2,006**	13,220
	(61,331)	14,957

9. OTHER INCOME

	2008 KD 000's	2007 KD 000's
Subscription and custody fees	**223**	769
Sundry income	**82**	370
	305	1,139

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. BASIC (LOSS) / EARNINGS PER SHARE

Basic (loss) / earnings per share is based on the weighted average number of shares outstanding during the year as follows:

	2008 KD 000's	2007 KD 000's
(Loss) / profit for the year	**(359,516)**	130,437
	Shares	Shares
Weighted average number of Bank's issued and paid up shares	**1,253,851,183**	1,253,851,183
Less: weighted average number of treasury shares	**(28,849,427)**	(25,752,453)
	1,225,001,756	1,228,098,730
	Fils	Fils
(Loss) / earnings per share	**(293)**	106

Earnings per share reported for the year ended 31 December 2007 was 122 fils before retroactive adjustment relating to the issue of bonus share at 15% of the paid up capital approved by the shareholders in the Annual General Meeting dated 8 March 2008.

11. CASH AND SHORT TERM FUNDS

	2008 KD 000's	2007 KD 000's
Balances with the Central Bank of Kuwait	**64,388**	57,091
Cash on hand and in current accounts with other banks	**48,666**	85,978
Deposits with banks and other financial institutions		
maturing within one month	**268,867**	441,197
	381,921	584,266

12. TREASURY BONDS

The Central Bank of Kuwait on behalf of the Ministry of Finance issues these financial instruments.

	2008 KD 000's	2007 KD 000's
Maturing within one year	**375,337**	338,620
Maturing after one year	**51,260**	74,287
	426,597	412,907

13. CENTRAL BANK OF KUWAIT BONDS

These financial instruments are issued by the Central Bank of Kuwait. They mature within a period not exceeding one year.

	2008 KD 000's	2007 KD 000's
Central Bank of Kuwait Bonds	**24,983**	175,925

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. LOANS AND ADVANCES TO BANKS AND CUSTOMERS

Loans and advances represent monies paid to banks and customers. The Bank's assessment of the credit risk concentration, based on the primary purpose of the loans and advances given, is provided below.

At 31 December 2008

Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	**774,833**	**-**	**-**	**-**	**-**	**774,833**
Financial	**459,467**	**5,950**	**20**	**-**	**-**	**465,437**
Trade and commerce	**254,827**	**-**	**-**	**-**	**-**	**254,827**
Crude oil and gas	**6,429**	**394**	**-**	**-**	**-**	**6,823**
Construction	**344,579**	**45,824**	**-**	**5,215**	**-**	**395,618**
Government	**-**	**13,490**	**-**	**-**	**1,424**	**14,914**
Manufacturing	**292,366**	**20,363**	**238**	**-**	**-**	**312,967**
Real estate	**864,524**	**-**	**-**	**-**	**-**	**864,524**
Others (Refer Note Below)	**568,972**	**72,714**	**24,075**	**-**	**50,999**	**716,760**
	3,565,997	**158,735**	**24,333**	**5,215**	**52,423**	**3,806,703**
Less: Provision for impairment						**(358,381)**
						3,448,322
Loans and advances to banks	**4,767**	**10,195**	**17,011**	**-**	**-**	**31,973**

At 31 December 2007

Loans and advances to customers

	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	773,524	-	-	-	-	773,524
Financial	386,155	5,894	24	-	-	392,073
Trade and commerce	221,035	589	-	-	-	221,624
Crude oil and gas	1,755	390	-	-	-	2,145
Construction	401,817	51,570	-	4,644	-	458,031
Government	-	57,707	-	-	1,318	59,025
Manufacturing	246,975	16,035	240	-	-	263,250
Real estate	696,269	-	-	-	-	696,269
Others	337,037	71,600	42,730	-	38,417	489,784
	3,064,567	203,785	42,994	4,644	39,735	3,355,725
Less: Provision for impairment						(86,929)
						3,268,796
Loans and advances to banks	7,092	22,711	8,168	22	-	37,993

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The category 'Others' includes KD200,800,000 (including foreign exchange translation differences) receivable from a related party customer, arising in the fourth quarter of 2008, from structured derivative transactions. The Bank is in the process of initiating legal proceedings and pending a final outcome for its recovery, an equivalent credit risk provision has been made against this amount.

Movement in provisions for impairment

	2008 KD 000's			2007 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**32,567**	**54,362**	**86,929**	23,710	48,807	72,517
Exchange adjustments	**28**	**-**	**28**	(26)	-	(26)
Recoveries	**500**	**-**	**500**	862	-	862
Amounts written off	**(215)**	**-**	**(215)**	(192)	-	(192)
Amount to be ceded to Central Bank of Kuwait	**-**	**-**	**-**	(392)	-	(392)
Amount provided for pre invasion debts not purchased by Central Bank of Kuwait (Note 26)	**154**	**-**	**154**	-	-	-
Income statement	**264,044**	**6,941**	**270,985**	8,605	5,555	14,160
At 31 December	**297,078**	**61,303**	**358,381**	32,567	54,362	86,929

The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a minimum general provision of 1% on all credit facilities, net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, has been made. During the year the Bank released KD19,000,000 to the statement of income from this surplus general provision, based on Central Bank of Kuwait's approval.

Movement in provisions for impairment for loans and advances by class is as follows:

	2008 KD 000's			2007 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**57,344**	**29,585**	**86,929**	51,284	21,233	72,517
Exchange adjustments	**28**	**-**	**28**	(26)	-	(26)
Recoveries	**-**	**500**	**500**	-	862	862
Amounts written off	**-**	**(215)**	**(215)**	(39)	(153)	(192)
Amount to be ceded to Central Bank of Kuwait	**-**	**-**	**-**	(392)	-	(392)
Amount provided for pre invasion debts not purchased by Central Bank of Kuwait (Note 26)	**154**	**-**	**154**	-	-	-
Income statement	**264,718**	**6,267**	**270,985**	6,517	7,643	14,160
At 31 December	**322,244**	**36,137**	**358,381**	57,344	29,585	86,929
Specific provision	**267,118**	**29,960**	**297,078**	15,282	17,285	32,567
General provision	**55,126**	**6,177**	**61,303**	42,062	12,300	54,362
	322,244	**36,137**	**358,381**	57,344	29,585	86,929

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The provision charge for the year on non-cash facilities is **KD6,672,000** (2007: KD1,331,000), net of release of general provision **KD526,000** (2007: Nil). The available provision on non-cash facilities of **KD27,619,000** (2007: KD20,947,000) is included in other liabilities (Note 21).

As at 31 December 2008, non-performing loans and advances amounted to **KD482,509,000** (2007: KD56,332,000) split between facilities granted pre-invasion and post-liberation as follows:

	2008		2007	
	Loans & advances KD 000's	**Specific Provisions KD 000's**	Loans & advances KD 000's	Specific Provisions KD 000's
Pre-invasion	**12,665**	**12,665**	12,511	12,511
Post-liberation	**469,844**	**284,413**	43,821	20,056
Total	**482,509**	**297,078**	56,332	32,567

In accordance with Decree 32/1992, when the pre-invasion provisions are no longer required they must be ceded to the Central Bank of Kuwait.

15. INVESTMENTS AVAILABLE FOR SALE

	2008 KD 000's	2007 KD 000's
Equity securities		
Quoted	**4,897**	2,291
Unquoted	**151,195**	240,588
Total	**156,092**	242,879

During the year, the Bank recognised a loss of **KD66,310,000** (2007: gain of KD28,248,000) in equity as the net (loss)/gain arising from changes in fair value of investment securities and re-cycled a loss of **KD(7,687,000)** (2007: KD38,313,000) to the income statement arising from the disposal of "investments available for sale".

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and as a result investments with a carrying amount of **KD11,881,000** (2007: KD21,741,000) are carried at cost. Certain investments amounting to **KD Nil** (2007: KD1,035,000) are carried at cost as the acquisition price of these investments is determined to be the fair value as these securities are recently acquired.

16. OTHER ASSETS

	2008 KD 000's	2007 KD 000's
Accrued interest receivable	**32,831**	21,790
Sundry debtors and others	**7,137**	1,343
	39,968	23,133

Sundry debtors and others includes KD62,717,000 (including foreign exchange translation differences) being the fair value of open structured derivative transactions with certain customers which are not yet due against which the Bank has made an equivalent credit risk provision.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2008 KD 000's	2007 KD 000's
Due to banks		
Current accounts and demand deposits	**74,480**	11,354
Time deposits	**17,029**	290,292
	91,509	301,646
Deposits from financial institutions		
Current accounts and demand deposits	**80,822**	83,772
Time deposits	**577,686**	790,693
	658,508	874,465

18. CUSTOMER DEPOSITS

	2008 KD 000's	2007 KD 000's
Current accounts	**354,482**	434,304
Savings accounts	**174,250**	209,930
Time deposits	**3,296,989**	2,547,095
	3,825,721	3,191,329

19. FLOATING RATE NOTES

During the year, the Bank repaid on maturity its five year floating rate note issued in 2003 amounting to USD200 million. They were listed on the Luxembourg Stock Exchange and were redeemable at par on or before 22 October 2008.These notes carried an interest of 0.65% per annum above the London interbank offered rate (LIBOR) for three-month US dollar deposits and payable quarterly in arrears. The notes were in bearer form in the denomination of USD100,000 each. The fair value of the floating rate notes as at 31 December 2007 amounted to USD200,040,000, equivalent to KD54,610,920.

20. SUBORDINATED LOANS

As at 31 December 2008, the Bank has subordinated borrowings of USD300 million equivalent to **KD82,785,000** (2007: KD81,900,000). The borrowings comprise of three 10 year subordinated loans: USD50 million due in June 2014, USD100 million due in December 2014, and USD150 million due in October 2016. The borrowings were obtained from financial institutions outside of Kuwait and qualify as Tier 2 subordinated loan capital. The loans are repayable at maturity, with an option for early pre-payment with the prior approval of Central Bank of Kuwait, and interest is variable and related to interbank offered rates. Subordinated loan covenants include a requirement to maintain a minimum BIS Capital adequacy ratio of 12%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. OTHER LIABILITIES

	2008 KD 000's	2007 KD 000's
Interest payable	**51,936**	43,120
Deferred income	**4,377**	2,268
Provisions for non-cash facilities	**27,619**	20,947
Fair value loss on credit default swaps	**60,839**	1,602
Contribution to Kuwait Foundation for the Advancement of Sciences	**-**	1,353
Staff related provisions	**5,576**	4,162
National Labour Support Tax	**-**	3,348
Zakat	**-**	83
Other	**20,589**	11,462
	170,936	88,345

22. SHARE CAPITAL

	2008 KD 000's	2007 KD 000's
Authorised		
2,507,702,366 (2007 : 1,090,305,377) shares of KD0.100 each	**250,770**	109,030
Issued and fully paid:		
1,253,851,183 (2007: 1,090,305,377) shares of KD0.100 each	**125,385**	109,030

The Bank's Board of Directors had resolved to recommend an increase in equity share capital from KD125,385,118 to KD250,770,236 through a rights issue of 1,253,851,183 shares of 100 fils each at a premium of 200 fils per share, to shareholders on record as of 26 October 2008. The terms of the rights issue were approved at the Ordinary and Extraordinary General Meeting of shareholders held on 2 December 2008. The Amiri decree promulgating this increase was issued on 23 December 2008.

The movement in ordinary shares during the year was as follows:

	2008 KD 000's	2007 KD 000's
Number of shares as at 1 January	**1,090,305,377**	948,091,631
Bonus issue	**163,545,806**	142,213,746
Number of shares as at 31 December	**1,253,851,183**	1,090,305,377

Bonus shares of 15% on the outstanding shares proposed as at 31 December 2007 was approved at the 2007 Annual General Meeting held on 8 March 2008 and was issued during the year following that approval (Note 25).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. RESERVES

a) Statutory Reserve

In accordance with the Law of Commercial Companies and the Bank's Articles of Association, no transfer has been made to statutory reserve due to losses incurred during the year.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable with approval of the Annual General Meeting. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

b) General Reserve

The general reserve represents the surplus general provision on credit facilities arising on implementation of Central Bank of Kuwait instructions issued on 18 December 1996 as well as additional instructions issued on 1 June 1999, and dividends distributed on treasury shares up until the end of 1997.

c) Share premium

The balance in the share premium account is not available for distribution but can be utilised for capital restructing to offset the accumulated deficit.

d) Property revaluation reserve

The property revaluation reserve represents the surplus of market value over carrying value of the premises and equipment owned by the Bank. The balance in this reserve is taken directly to retained earnings when the underlying assets are disposed of.

24. TREASURY SHARES AND TREASURY SHARE RESERVE

	2008	2007
Number of treasury shares	**36,263,737**	16,157,598
Percentage of treasury shares	**2.89%**	1.48%
Cost of treasury shares (KD 000's)	**45,404**	19,932
Market value of treasury shares (KD 000's)	**-**	27,629

It is not possible to disclose the market value of the treasury shares as of 31 December 2008, as the Kuwait Stock Exchange has suspended the trading in the Bank's share with effect from 26 October 2008.

Movement in treasury shares was as follows:

	No. of shares	
	2008	2007
Balance as at 1 January	**16,157,598**	24,994,216
Purchases	**17,832,500**	2,345,000
Bonus issue	**2,423,639**	3,590,882
Sales	**(150,000)**	(14,772,500)
Balance as at 31 December	**36,263,737**	16,157,598

The balance in the treasury share reserve account is not available for distribution.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. PROPOSED DIVIDEND, BONUS SHARES AND DIRECTORS' REMUNERATION

The 2007 Annual General Meeting held on 8 March 2008 approved the following: cash dividend of 65 fils per share (totalling KD69,820,000 to the shareholders registered in the Bank's records as of the date of the Annual General Meeting) and bonus shares of 15% on the outstanding shares as at 31 December 2007. For this purpose the authorised capital of the Bank was increased from KD109,030,537 to KD125,385,118, which was approved by the shareholders in the Extraordinary General meeting held on 8 March 2008.

Directors' remuneration of **KD9,000** (2007: KD108,000) is within the amount permissible under local regulations and is subject to approval of the shareholders at the Annual General Meeting.

26. PROVISION TO BE RECOVERED/CEDED TO THE CENTRAL BANK OF KUWAIT

As at 31 December 2008, provision to be ceded to the Central Bank of Kuwait is **KD Nil** (2007: KD392,000). The identification of provisions no longer required was made in the same manner as adopted at the end of 2007 and in accordance with Central Bank of Kuwait instructions. Bank has provided KD154,000 for the shortfall of provision on pre-invasion debts not purchased by Central Bank of Kuwait.

27. RELATED PARTY TRANSACTIONS

Certain related parties (directors and officers of the Bank, their families and companies of which they are the principal owners) were customers of the Bank 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 a normal amount of risk.

The transaction and balances included in the balance sheet are as follows:

	Number of Board Members or executive management members		Number of related parties			
	2008	2007	**2008**	2007	**2008 KD 000's**	2007 KD 000's
Board members						
Loan receivables and advances	**4**	4	**9**	2	**119,086**	46,749
Provision for losses on receivable from a related party	**-**	-	**-**	-	**200,800**	-
Deposits	**5**	5	**-**	-	**7,792**	807
Guarantees issued	**1**	2	**6**	2	**19,282**	2,190
Executive management						
Loans	**8**	9	**-**	-	**3,297**	3,589
Deposits	**1**	2	**-**	-	**4**	14
Guarantees issued	**2**	2	**-**	-	**2**	2

The loans issued to directors and key management personnel are repayable within 3 years and have interest rates of **5.75% to 7.75%** (2007: 6.25% to 8.25%). Some of the loans advanced to directors during the year are collateralised. The fair value of these collaterals as of 31 December 2008 was **KD117,190,000** (2007: KD94,675,000).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The transactions included in the income statement are as follows:

	2008 KD 000's	2007 KD 000's
Directors and key management personnel:		
Interest income earned	**3,373**	3,807
Interest expense on deposits	**222**	23
Impairment loss on investment securities	**3,150**	-
Specific provision on receivable from a related party	**200,800**	-
Key management compensation:		
Salaries and other short-term benefits	**1,943**	2,039
End of service/termination benefits	**92**	120

28. FINANCIAL INSTRUMENTS

Strategy in using financial instruments

As a commercial bank, the Bank's activities are principally related to the use of financial instruments including derivatives. It accepts deposits from customers at both fixed and floating rates for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. It also seeks to increase these margins by consolidating short term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that may fall due.

With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Risk management

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

The strategy of the Bank is to maintain a strong risk management culture and manage the risk/reward relationship within and across each of the Bank's major risk-based lines of business. The Bank continuously reviews its risk management policies and practices to ensure that the Bank is not subject to large asset valuation volatility and earnings volatility. However, this process is being further strengthened as a result of matters stated in Note 34.

The following sections describe the several risks inherent in the banking process, their nature and how they are managed.

A. 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. It arises principally from lending, trade finance and treasury activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

A brief description of the risk management frame work is given below:

The Bank has comprehensive policies and procedures to control and monitor all such risks. Credit risk is minimised by monitoring credit exposures, limiting transactions with individual counterparties and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

continually assessing collateral coverage/quality and the creditworthiness of counterparties.

Individual customer, industry segment and cross-border limits are used to diversify lending and avoid undue concentrations. Credit exposure relating to trading activities is controlled by the use of strict counterparty limits, master netting agreements and collateral arrangements (where appropriate), and by limiting the duration of exposures.

An independent credit control unit, reporting to Deputy General Manager, Credit Control, is responsible for providing high-level centralised management of credit risk. The responsibilities of this team include: monitoring adherence to credit policies and procedures; establishing and maintaining large credit exposure policies covering the maximum exposure to individual customers, customer groups and other risk concentrations; undertaking independent and objective 'pre-fact' reviews to assess the credit risk for both new facilities and renewals; controlling exposures to banks and other financial institutions; controlling cross-border exposures; controlling exposures to specific industry groups; maintaining and developing the Bank's facility rating process in order to categorise exposures into meaningful segments; and preparing regular reports to senior management on areas such as customer/industry risk concentrations, country limits and cross-border exposures and non-performing accounts and provisions.

The Bank has detailed credit approval guidelines for each of its individual retail loan products. The eligibility criteria vary according to the specific loan product, but include items such as minimum length of employment and minimum period of pre-existing banking relationship with the Bank. Applicants must also provide a credit reference from their employer, specifying salary and length of service, and a commitment from the employer to pay their salary directly to their saving account with the Bank. In accordance with CBK regulations, the applicant's total monthly debt repayment to income ratio must not exceed the limits stipulated of their monthly income.

The bank has four credit committees: the Executive Credit Committee ('ECC'), the Management Sub-Committee ('MSC'), the Retail Credit Committee ('RCC') and the Classification and Provisions Committee ('CPC'). The Board of Directors has delegated all authority for credit decisions to the ECC within the Central Bank of Kuwait guidelines. The responsibilities of the ECC are to review and approve any amendments to the Bank's credit policies and risk strategies for submission to the Board of Directors for final approval and to review, approve, reject, modify or conditionally approve credit proposals in excess of the delegated authority of the MSC and in compliance with the credit policies of the Bank.

The RCC meets regularly and has the authority to approve, reject or modify credit applications from retail customers submitted to it within its delegated authority levels. An independent, centralised quality assurance function ensures the completeness and accuracy of the loan application documentation, undertakes credit and "black list" checks and monitors standing order commitments and other loan repayment obligations. In addition, all consumer credit applications are subject to a credit check by the industry-owned Credit Information Network ('Ci-Net') credit reference agency to assess the creditworthiness and indebtedness of the applicant.

Credit applications for corporate and international lending are reviewed by the MSC and typically include the following information: customer profile and summary of limits and amounts outstanding; pre-fact credit review prepared by the Bank's independent credit control unit; risk rating, credit analysis and customer profitability analysis; financial and cash flow analysis; details of purpose of loan, collateral, repayment source and details of guarantors, if applicable; and audited financial statements and/or personal net worth statements, as appropriate.

The MSC has the authority to approve, reject or modify credit applications submitted to it within its delegated authority levels. The MSC meets twice weekly. Applications that fall outside the delegated authority limits of the MSC are referred to the ECC, which meets weekly.

The Bank has legal lending limits, country limits and industry sector limits that must be adhered to when lending approval is being considered in respect of relevant applications or participations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Bank has a detailed credit policy defining its policy on acceptable country credit risk exposure, and evaluating and controlling cross border risk. The Bank uses a ranking system to differentiate between the quality of various sovereign risks. There are five categories of sovereign risk employed by the Bank ranging from 'Very Low Risk' countries (i.e. major OECD and AAA rated countries) through to 'Very High Risk' countries (i.e. BB/B rated countries). The individual country limits are approved and kept under review by the ECC. This approval is based on the country analysis and assessment of business requirements undertaken by the Bank's international banking division and recommended by the MSC.

The international banking division reviews the Bank's overall cross border limits and exposure risk ratings at least every six months. The review focuses on the overall spread of cross border risk and recommendations to alter individual country risk limits are made where necessary.

Geographical and industry sector concentrations of assets, liabilities and off balance sheet items are as follows:

	2008			2007		
	Assets KD 000's	**Liabilities KD 000's**	**Off balance sheet items KD 000's**	Assets KD 000's	Liabilities KD 000's	Off balance sheet items KD 000's
Geographic region:						
Domestic (Kuwait)	**3,807,957**	**4,000,657**	**1,309,413**	3,920,681	3,507,941	1,746,888
Other Middle East	**769,327**	**630,347**	**1,062,572**	733,317	639,788	751,135
Europe	**134,973**	**26,882**	**104,796**	81,669	297,389	410,502
USA and Canada	**8,452**	**121,987**	**130,248**	3,127	6,418	14,468
Asia and Pacific	**8,025**	**116,480**	**288,754**	4,944	19,467	179,011
Rest of world	**166,954**	**13,106**	**3,536**	295,138	121,282	1,613
	4,895,688	**4,909,459**	**2,899,319**	5,038,876	4,592,285	3,103,617
Industry sector:						
Personal	**737,610**	**1,993,343**	**29,649**	724,680	1,850,189	42,016
Financial	**1,170,440**	**886,317**	**506,877**	1,240,458	1,407,728	912,549
Trade and Commerce	**246,660**	**23,997**	**291,328**	219,274	25,502	198,335
Crude Oil and Gas	**6,365**	**190,557**	**6,369**	1,737	152,665	843
Construction	**379,147**	**15,831**	**560,862**	451,046	17,618	465,830
Government	**529,459**	**1,030,199**	**218,219**	747,666	503,834	233,620
Other	**671,132**	**236,739**	**921,827**	700,392	359,870	831,883
Manufacturing	**299,763**	**527,248**	**131,035**	264,365	268,406	246,811
Real Estate	**855,112**	**5,228**	**233,153**	689,258	6,473	171,730
	4,895,688	**4,909,459**	**2,899,319**	5,038,876	4,592,285	3,103,617

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the balance sheet, including derivatives without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

BY CLASS OF FINANCIAL ASSETS

	Gross maximum exposure 2008 KD 000's	Gross maximum exposure 2007 KD 000's
Cash and short term funds (excluding cash on hand)	**353,827**	563,502
Treasury bonds	**426,597**	412,907
Central Bank of Kuwait bonds	**24,983**	175,925
Deposits with banks and other financial institutions	**413,926**	313,741
Loans and advances to banks	**31,973**	37,993
Loans and advances to customers:		
Corporate lending	**2,814,368**	2,655,173
Consumer lending	**633,954**	613,623
Investments available for sale	**156,092**	242,879
Other assets	**39,968**	23,133
Total	**4,895,688**	5,038,876
Contingent liabilities	**2,777,463**	3,017,803
Commitments	**121,856**	85,814
Total	**2,899,319**	3,103,617
Total credit risk exposure	**7,795,007**	8,142,493

Credit risk can also arise due to a significant concentration of Bank's assets to any single counterparty, this risk is managed by diversification of the portfolio. The 20 largest gross loan facility exposures outstanding as a percentage of total credit risk exposures as at 31 December 2008 is 27% (2007: 20%).

Collateral and other credit enhancements:

The Bank employs a range of policies and practices to reduce credit risk. The Bank seeks collateral coverage, the assignment of contract proceeds and other forms of protection to secure lending and minimise credit risks wherever possible. The Bank's borrowing agreements also include legally enforceable netting arrangements for loans and deposits enabling the Bank to consolidate the customer's various accounts with the Bank and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

The Bank's credit facilities are largely secured by collateral, consisting primarily of: equities listed on the Kuwait Stock Exchange; real estate (land and buildings); fixed term deposits and cash balances with the Bank that are blocked and legally pledged in its favour; and direct, explicit, irrevocable and unconditional bank guarantees.

The Bank takes adequate steps to ensure that there is no excessive concentration of any particular asset class within the collaterals.

Internal credit quality rating:

The Bank uses Moody's KMV risk rating software for rating its borrowers having financial statements. Clients having no financial statements continue to be rated using internally developed score-card models.

Under the Moody's rating framework, all clients are rated on a scale from 1 to 10 in the descending order of credit quality. Moody's Risk rating software comprises of two components - Moody's Financial Analyst (MFA) and Moody's Risk Advisor (MRA). MFA is used for analysing financial data of individual borrowers and MRA is used to analyse the relative credit worthiness of borrowers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The rating methodology focuses on factors such as: operating performance, liquidity, debt service and capital structure. The ratio analysis includes assessment of each ratio's trend across multiple periods, both in terms of the rate change and the volatility of the trend. It also compares the value of the ratio for the most recent period with the values of the comparable peer group. Qualitative assessment of the operations, liquidity and capital structure are also included in the assessment.

The Bank categorizes performing credit exposures into the following:

Credit Quality Grade (CQG)	Internal Rating
CQG – 1	1 to 2.9
CQG – 2	3 to 4.9
CQG – 3	5 to 6.9
CQG – 4	7 to 8.9
CQG – 5	9 to 10

	Neither past due nor impaired					
2008	**CQG1 KD 000's**	**CQG2 KD 000's**	**CQG3 KD 000's**	**CQG4 KD 000's**	**CQG5 KD 000's**	**Total KD 000's**
Loans to banks	**1,279**	**4,820**	**8,461**	**13,108**	**4,305**	**31,973**
Loans and advances:						
- Corporate lending	**257,810**	**619,113**	**691,411**	**301,439**	**43,573**	**1,913,346**
- Consumer lending	**569,209**	**2,147**	**110**	**-**	**-**	**571,466**
Effective interest rate adjustment (Note 5)	**(1,061)**	**-**	**-**	**-**	**-**	**(1,061)**
	827,237	**626,080**	**699,982**	**314,547**	**47,878**	**2,515,724**

	Neither past due nor impaired					
2007	CQG1 KD 000's	CQG2 KD 000's	CQG3 KD 000's	CQG4 KD 000's	CQG5 KD 000's	Total KD 000's
Loans to banks	315	7,541	22,284	7,853	-	37,993
Loans and advances:						
- Corporate lending	398,665	1,220,226	418,381	240,066	21,142	2,298,480
- Consumer lending	542,618	-	-	-	-	542,618
Effective interest rate adjustment (Note 5)	(8,753)	-	-	-	-	(8,753)
	932,845	1,227,767	440,665	247,919	21,142	2,870,338

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Aging analysis of past due but not impaired loans per class of financial assets:

	2008			
	Past due up to 30 days KD 000's	**Past due 30 to 60 days KD 000's**	**Past due 60 to 90 days KD 000's**	**Total KD 000's**
Loans and advances to customers:				
- Corporate lending	**602,747**	**114,360**	**64,021**	**781,128**
- Consumer lending	**40,220**	**13,229**	**6,084**	**59,533**
Effective interest rate adjustment (Note 5)	**(156)**	**(27)**	**(35)**	**(218)**
Total	**642,811**	**127,562**	**70,070**	**840,443**
Fair value of collateral	**953,630**	**355,965**	**45,229**	**1,354,824**

	2007			
	Past due up to 30 days KD 000's	Past due 30 to 60 days KD 000's	Past due 60 to 90 days KD 000's	Total KD 000's
Loans and advances to customers:				
- Corporate lending	322,843	18,052	35,800	376,695
- Consumer lending	76,085	11,811	4,370	92,266
Effective interest rate adjustment (Note 5)	(1,486)	(283)	(144)	(1,913)
Total	397,442	29,580	40,026	467,048
Fair value of collateral	1,665,149	109,529	36,389	1,811,067

Financial assets by class individually impaired

2008	**Gross exposure KD 000's**	**Impairment KD 000's**	**Fair value of collateral KD 000's**
Loans and advances:			
- Corporate lending	**443,425**	**267,118**	**221,487**
- Consumer lending	**39,092**	**29,960**	**90**
Effective interest rate adjustment (Note 5)	**(8)**	**-**	**-**
	482,509	**297,078**	**221,577**
2007			
Loans and advances:			
- Corporate lending	31,636	15,282	27,391
- Consumer lending	25,339	17,285	376
Effective interest rate adjustment (Note 5)	(643)	-	-
	56,332	32,567	27,767

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. These instruments are disclosed in Note 30.

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

These derivative financial instruments, comprising foreign exchange and interest rate contracts, allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. Collateral security is not usually obtained for credit risk exposures on these instruments. These instruments are disclosed in Note 32.

B. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value or cash flows of the financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance-sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held last year, including the effect of hedging instruments. The sensitivity of equity is the impact on fair value of investments available for sale for the effects of assumed changes in interest rates.

Based on the Bank's financial assets and liabilities held at the balance sheet date, a change in basis points movements with all other variables held constant, the Bank's profit would move as follows:

Currency	Movement in Basis points	2008 Profit KD 000's	2007 Profit KD 000's
KWD	+25	**1,312**	3,072
USD	+25	**452**	(911)
EUR	+25	**21**	(87)
GBP	+25	**1**	(141)

Currency	Movement in Basis points	2008 Profit KD 000's	2007 Profit KD 000's
KWD	-25	**(1,592)**	(2,866)
USD	-25	**(452)**	(934)
EUR	-25	**(21)**	(89)
GBP	-25	**(1)**	(141)

Majority of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities and products whose performance cannot necessarily be measured in relation to movement in any interest rates quoted around the world.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

A majority of the Bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk. The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is the historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

C. CURRENCY RISK

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank views itself as a Kuwaiti entity with Kuwaiti Dinars as its functional currency. The Board of Directors has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

Based on the Bank's financial assets and liabilities held at the balance sheet date, a change in currency movements with all other variables held constant, the Bank's profit and equity would move as follows:

	2008			2007		
Currency	**Change in currency rate in %**	**Impact on profit %**	**Impact on equity %**	Change in currency rate %	Impact on profit %	Impact on equity %
USD	**+5**	**2**	**15**	+5	(7)	2
EURO	**+5**	**-**	**2**	+5	(1)	-

Majority of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities and products which are denominated in different currencies whose performance cannot necessarily be measured with relation to movement in any particular currency rates. Only the impact on the carrying amount of these securities has been considered in the sensitivity analysis.

D. LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a sufficient balance of cash, cash equivalents and readily marketable securities.

Liquidity risk arises in the general funding of a bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the Treasury group manage the liquidity and funding of the Bank to ensure that sufficient funds are available to meet the Bank's known cash funding requirements and any unanticipated needs that may arise. At all times, the Bank holds what it considers to be adequate levels of liquidity to meet deposit withdrawals, repay borrowings and fund new loans, even under stressed conditions.

The liquidity and funding management process includes: projecting cash flows by major currency; monitoring balance sheet liquidity ratios against internal and regulatory requirements; maintaining a diverse range of funding sources with adequate back-up facilities; monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and managing debt financing needs. The Bank maintains a diversified and stable funding base of core retail and corporate deposits, and the treasury group maintain liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional markets or geopolitical events.

Liquidity risk is further minimised by adherence to the strict CBK liquidity requirements, namely: maturity ladder mismatch limits for specific time periods: 10%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for 7 days or less; 20% for 1 month or less; 30% for 3 months or less; 40% for 6 months or less; and the requirement to hold 18% of KD customer deposits in Kuwait Government treasury bills and bonds, current account/deposit balances with CBK and/or any other financial instruments issued by CBK.

The maturity profile of the assets and liabilities at the year end based on contractual repayment arrangements is as follows:

At 31 December 2008

Assets:-	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and short term funds	381,921	-	-	-	-	-	381,921
Treasury bonds	5,447	52,929	98,969	217,992	31,180	20,080	426,597
Central Bank of Kuwait bonds	24,983	-	-	-	-	-	24,983
Deposits with banks and other financial institutions	-	-	358,736	55,190	-	-	413,926
Loans and advances to banks	8,153	22,541	1,279	-	-	-	31,973
Loans and advances to customers	978,934	499,217	549,872	217,474	309,773	893,052	3,448,322
Investments available for sale	-	-	-	-	-	156,092	156,092
Other assets	39,968	-	-	-	-	-	39,968
Premises and equipment	-	-	-	-	-	23,665	23,665
Total assets	1,439,406	574,687	1,008,856	490,656	340,953	1,092,889	4,947,447
Liabilities and equity:							
Due to Central Bank of Kuwait	80,000	-	-	-	-	-	80,000
Due to banks	81,118	6,363	4,028	-	-	-	91,509
Deposits from financial Institutions	274,964	265,078	109,056	9,357	53	-	658,508
Customer deposits	2,055,574	508,104	759,018	502,702	323	-	3,825,721
Floating rate notes	-	-	-	-	-	-	-
Subordinated loans	-	-	-	-	-	82,785	82,785
Other liabilities	-	86,216	7,038	77,682	-	-	170,936
Equity	-	-	-	-	-	37,988	37,988
Total liabilities	2,491,656	865,761	879,140	589,741	376	120,773	4,947,447
Net liquidity gap	(1,052,250)	(291,074)	129,716	(99,085)	340,577	972,116	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2007

Assets:-	Up to 1 month KD 000's	1 to 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	1 to 3 years KD 000's	Over 3 years KD 000's	Total KD 000's
Cash and short term funds	584,266	-	-	-	-	-	584,266
Treasury bonds	7,400	57,807	106,912	166,501	28,027	46,260	412,907
Central Bank of Kuwait bonds	14,900	161,025	-	-	-	-	175,925
Deposits with banks and other financial institutions	-	210,749	75,692	27,300	-	-	313,741
Loans and advances to banks	17,283	18,021	2,689	-	-	-	37,993
Loans and advances to customers	633,754	432,143	535,236	414,713	312,215	940,735	3,268,796
Investments available for sale	-	-	-	-	-	242,879	242,879
Other assets	23,133	-	-	-	-	-	23,133
Premises and equipment	-	-	-	-	-	23,269	23,269
Total assets	1,280,736	879,745	720,529	608,514	340,242	1,253,143	5,082,909
Liabilities and equity:							
Due to banks	169,024	58,247	74,375	-	-	-	301,646
Deposits from financial Institutions	285,808	424,159	69,468	95,030	-	-	874,465
Customer deposits	1,991,775	499,555	436,434	256,951	6,589	25	3,191,329
Floating rate notes	-	-	-	54,600	-	-	54,600
Subordinated loans	-	-	-	-	-	81,900	81,900
Other liabilities	-	48,012	7,325	33,008	-	-	88,345
Equity	-	69,820	-	-	-	420,804	490,624
Total liabilities	2,446,607	1,099,793	587,602	439,589	6,589	502,729	5,082,909
Net liquidity gap	(1,165,871)	(220,048)	132,927	168,925	333,653	750,414	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The table below summarises the maturity profile of the Bank's financial liabilities and contingent liabilities and commitments at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

At 31 December 2008

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
Due to Central Bank of Kuwait	**80,009**	**-**	**-**	**-**	**-**	**80,009**
Due to banks	**81,142**	**6,413**	**4,112**	**-**	**-**	**91,667**
Deposits from financial institutions	**275,368**	**266,510**	**121,053**	**56**	**-**	**662,987**
Customer deposits	**2,058,693**	**512,079**	**1,293,680**	**377**	**-**	**3,864,829**
Floating rate notes	**-**	**-**	**-**	**-**	**-**	**-**
Subordinated loans	**-**	**598**	**2,170**	**11,072**	**87,978**	**101,818**
Other liabilities	**-**	**86,216**	**7,038**	**77,682**	**-**	**170,936**
	2,495,212	**871,816**	**1,428,053**	**89,187**	**87,978**	**4,972,246**

At 31 December 2007

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
Due to banks	169,376	58,816	75,755	-	-	303,947
Deposits from financial institutions	286,173	428,579	171,131	-	-	885,883
Customer deposits	1,994,746	504,576	717,740	7,120	-	3,224,182
Floating rate notes	844	-	57,132	-	-	57,976
Subordinated loans	-	1,033	3,980	20,054	95,768	120,835
Other liabilities	-	48,012	7,325	33,008	-	88,345
	2,451,139	1,041,016	1,033,063	60,182	95,768	4,681,168

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

THE TABLE BELOW SHOWS THE CONTRACTUAL EXPIRY BY MATURITY OF THE BANK'S CONTINGENT LIABILITIES AND COMMITMENTS.

	Less than 1 month KD 000	1 to 3 months KD 000	3 to 12 months KD 000	1 to 5 years KD 000	Over 5 years KD 000	Total KD 000
At 31 December 2008						
Contingent liabilities	**265,814**	**353,068**	**1,247,345**	**257,134**	**83,843**	**2,207,204**
Commitments	**2,477**	**35,645**	**42,582**	**40,830**	**322**	**121,856**
	268,291	**388,713**	**1,289,927**	**297,964**	**84,165**	**2,329,060**
At 31 December 2007						
Contingent liabilities	288,888	317,543	768,081	415,173	20,171	1,809,856
Commitments	8,563	24,115	52,634	502	-	85,814
	297,451	341,658	820,715	415,675	20,171	1,895,670

E. OPERATIONAL RISK

Operational risk arises from a failure to control properly all aspects of documentation, processing, settlement of, and accounting for, transactions and, more widely, all the hazards to which a bank is exposed as a result of being in business and doing business. The Bank has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed through the Risk Management Department. This department ensures compliance with policies and procedures to identify, assess, supervise and monitor operational risk as part of overall risk management.

The operational risks are managed through the Risk Management Department in line with the Central Bank of Kuwait instructions dated 14 November 1996, concerning the general guidelines for internal controls and the instructions dated 13 October 2003, regarding the sound practices for managing and supervising operational risks in banks.

F. EQUITY PRICE RISK

This is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Bank manages this risk through diversification of investments.

Majority of the Bank's investments are held in well diversified portfolio of hedge funds which invest in a variety of securities whose performance cannot necessarily be measured in relation to movement in any specific equity index.

G. PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

Most of the Bank's interest bearing financial assets are at floating rates. In addition, the interest bearing financial liabilities excluding subordinated loans where the repayment option is with the Bank, have a maturity of less than one year and accordingly, the Bank is not exposed to significant prepayment risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Bank 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.

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

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

As explained in note 15, included under investment available for sale unquoted equity investments with a carrying value **of KD11,881,000** (2007: KD21,741,000) for which fair value cannot be reliably determined.

30. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various contingent liabilities and irrevocable commitments. Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and therefore form part of the overall risk of the Bank.

The total outstanding contingent liabilities and commitments are as follows:

	2008 KD 000's	2007 KD 000's
Guarantees	**1,376,958**	1,064,863
Letters of credit	**830,246**	744,993
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	**121,535**	85,312
Original term to maturity of more than one year	**321**	502
	121,856	85,814
	2,329,060	1,895,670

31. SEGMENTAL ANALYSIS

a. By Business Unit

Treasury & International

Principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

Domestic Banking

Principally handling individual customer deposits and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and handling loans and other credit facilities, deposits and current accounts for corporate and institutional customers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2008

	Treasury & International KD 000's	Domestic Banking KD 000's	Total KD 000's
Income Statement:			
Interest income from external sources	**60,154**	**272,410**	**332,564**
(Loss) / profit for the year	**(413,284)**	**53,768**	**(359,516)**
Balance Sheet:			
Assets	**1,661,541**	**3,285,906**	**4,947,447**
Liabilities:			
Due to Central Bank of Kuwait	**80,000**	**-**	**80,000**
Deposits, floating rate notes and subordinated loans	**2,049,056**	**2,609,467**	**4,658,523**
Other liabilities	**100,219**	**70,717**	**170,936**
Central treasury	**(605,722)**	**605,722**	**-**
	1,623,553	**3,285,906**	**4,909,459**
Capital expenditure	**15**	**2,496**	**2,511**
Depreciation	**49**	**2,435**	**2,484**

At 31 December 2007

	Treasury & International KD 000's	Domestic Banking KD 000's	Total KD 000's
Income Statement:			
Interest income from external sources	85,481	229,824	315,305
Profit for the year	19,115	111,322	130,437
Balance Sheet:			
Assets	1,679,842	3,403,067	5,082,909
Liabilities:			
Deposits, floating rate notes and subordinated loans	1,727,884	2,776,056	4,503,940
Other liabilities	26,501	61,844	88,345
Central treasury	(565,167)	565,167	-
	1,189,218	3,403,067	4,592,285
Capital expenditure	23	2,747	2,770
Depreciation	10	2,161	2,171

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

b. By Geographical Area

All significant segment revenue from external customers is derived from customers based in Kuwait. Geographic segment information relating to location of assets is given in note 28 A.

32. DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. 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.

At 31 December 2008

				Notional amounts by term to maturity		
Derivatives instruments held as:	**Positive fair value KD 000's**	**Negative fair value KD 000's**	**Notional amount Total KD 000's**	**Within 3 months KD 000's**	**3-12 months KD 000's**	**Over 1 year KD 000's**
Trading (and non qualifying hedges)						
Interest rate swaps	-	-	-	-	-	-
Forward foreign exchange contracts	**126**	**(5,704)**	**64,632**	**60,530**	**4,102**	-
Credit default swaps	-	**(60,839)**	**433,190**	-	-	**433,190**
Structured Products (Note 16)	**62,785**	**(51)**	**72,437**	-	-	**72,437**
	62,911	**(66,594)**	**570,259**	**60,530**	**4,102**	**505,627**

At 31 December 2007

				Notional amounts by term to maturity		
Derivatives instruments held as:	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount Total KD 000's	Within 3 months KD 000's	3-12 months KD 000's	Over 1 year KD 000's
Trading (and non qualifying hedges)						
Interest rate swaps	312	(107)	17,436	-	-	17,436
Forward foreign exchange contracts	25	(2,363)	483,254	346,151	137,103	-
Credit default swaps	-	(1,602)	448,549	-	17,745	430,804
Structured Products (Note 16)	42,411	(42,411)	258,708	-	-	258,708
	42,748	(46,483)	1,207,947	346,151	154,848	706,948

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount or to transfer third party credit risk based on an agreed principal and related outstanding interest. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments as well as notional amounts are exchanged in different currencies. For credit default swaps, fee is earned based on the amount of credit risk swapped.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales, positioning and arbitrage. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets or products. Also included under this heading are any derivatives which do not meet IAS 39 hedging requirements.

33. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

The disclosures relating to the Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, and the disclosures required by the amendments of IAS 1 – Capital disclosures, are included under the 'Capital Management and Allocation' section of the Annual Report.

34. SIGNIFICANT EVENT

In October 2008, the Bank incurred significant losses on derivative contracts, entered into on behalf of certain customers, due to sharp adverse movements in exchange rates of certain foreign currencies and interest rates. One of these customers failed to pay its contractual obligation to the Bank on the due date. The Bank then closed all its open derivative positions with counter party banks and received financial support from CBK of KD420,000,000 at a nominal interest rate of 0.5% to settle its obligations.

Furthermore, due to significant adverse market movements in October 2008, there was a decline in value of the Bank's investment and proprietary derivative positions and additional specific provision were required on loans.

As a result of these matters in November 2008, the Bank's Board of Directors resolved to recommend an increase in equity share capital from KD125,385,118 to KD250,770,236 through a rights of 1,253,851,183 shares of 100 fils each at a premium of 200 fils per share, to shareholders on record as of 26 October 2008. The terms of rights issue were approved at the ordinary and extraordinary general meetings of shareholders held on 2 December 2008. The Amiri decree authorising this capital increase was promulgated on 23 December 2008.

During the subscription period in January 2009 the rights issue was fully subscribed to and the minimum capital adequacy ratio was restored. The existing shareholders participated in 68% of the rights issue and in line with the resolutions adopted by shareholders at the above EGM, Kuwait Investment Authority took the unsubscribed shares.

The balance outstanding to Central bank of Kuwait as at 31st December 2008 of KD80,000,000 was repaid out of the proceeds from the rights issue.

“It's not the towering sail, but the unseen wind that guides the ship”

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