Annual Report 2010

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بنك الخليج
GULF BANK
GROWING WITH YOU

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)

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Board of Directors

• Ali Abdul Rahman Al Rashaid Al Bader	Chairman
• Mahmoud Abdul Khaleq Al Nouri	Deputy Chairman
• Tarek Abdul Aziz Sultan Al-Essa	Board Member
• Dr. Ali Hussain Hasan Abdulla	Board Member
• Ali Morad Yusuf Behbehani	Board Member
• Omar Hamad Yusuf Al-Essa Al-Qanai	Board Member
• Omar Kutayba Yusuf Alghanim	Board Member
• Farouk Ali Akbar Abdulla Bastaki	Board Member
• Dr. Yousef Sayed Hasan Ali Al Zalzalah	Board Member

Ali Abdul Rahman Al Rashaid Al Bader
Chairman

Chairman's Message

Introduction

To begin with, I have the pleasure to congratulate you on the occasion of Gulf Bank's 50th Anniversary, which coincides with our country's 50th National Day, 20th Liberation Day, and 5th Anniversary of the coronation of His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah as Amir of Kuwait. We look forward to another 50 years of advancement, stability, economic progress and welfare of Kuwait and its people.

Review of 2010

The past year has been both a positive and an exciting one for Gulf Bank and I would like to highlight some of the key results and milestones Gulf Bank has achieved. These successes have allowed your Bank to re-affirm its strong position amongst local banks and demonstrate our close and flourishing relationship with the national economy institutions and the community.

Key Events in 2010

In 2010, Gulf Bank recorded an impressive operating revenue of KD135 M (including certain one-offs totaling KD 40 million) as compared to KD83 M in 2009, a 7% growth in fees and commission income, in addition to an improvement in interest margins. These results reflect the constant improvement in the Bank's performance and operations and the increasing economic impetus accompanying the implementation of the new five-year development plan. In parallel, capital adequacy ratio now stands at an impressive 17.6%, up from 15.9% a year ago.

In line with its conservative policy, however, the Bank retained the largest portion of the operating profit to increase specific and excess general loan provisions. As part of our objective of building a fortress balance sheet, we have built precautionary excess general provisions, over KD30 million, to protect us in case of unforeseen events, which is critical for our future. It means that Gulf Bank is in an excellent position to support its continued expansion and growth potential. The net profit for the year was KD19 M against a loss of KD28 M in 2009.

On another front, Gulf Bank continued to harvest numerous prestigious awards for general banking excellence, which prove the Bank's eligibility for excellence in various banking areas. These included: Best Retail Bank from Arabian Business magazine, Best Public Relations Campaign within the framework of Corporate Social Responsibility (CSR), Best Loyalty Program, and Best Contact Center from Banker Middle East, the Citi Performance Excellence Award for International Payments, and a JP Morgan Quality Recognition Award for Operational Excellence.

The Bank has also unveiled its new corporate image, Growing With You, which focuses on our commitment to provide innovative and valued services to our customers. The new image is an evolution of what was there before, and reflects the Bank's commitment to providing the highest transparency levels to customers, offering the right counsel, and providing a greater understanding of our customers' banking requirements and concerns.

Our strong performance in 2010 has been the direct result of the hard work of all our staff, enhanced by the cooperation of our shareholders and customers' satisfaction, the renewed focus on our core banking competencies as a domestic retail at commercial bank, as well as our careful strategy to further adapt the Bank's activities in response to market needs. Gulf Bank continues to invest and develop its human capital to raise professional standards and deliver best practices, enabling us to serve customers better and repay our shareholders with consistently good returns. In November 2010, the Bank received the coveted Localization Award, for the 6th consecutive year, from the GCC Council of Ministers of Labour and Social Affairs. This award acknowledges the outstanding success in training and developing the national workforce as well as achieving one of the highest employment percentages of Kuwaiti nationals across the private sector. Gulf Bank is the first Kuwaiti bank to achieve this status.

Moving Forward

Gulf Bank has a solid foundation to meet its objectives. Our performance demonstrates we are well positioned for more success; the Bank's percentage of non-performing loans is expected to improve further this year, and the percentage coverage, no matter what the percentage of bad debt, is improving as well. Our plan includes building a 'fortress' balance sheet, which focuses on developing the Bank's core competencies and building new businesses within that framework. During the third quarter of 2011 the Bank plans to deliver a new three-year growth plan that is purely focused on constant growth with confidence.

In the meantime, we anticipate Gulf Bank's increasing contribution to financing the implementation of the state-adopted ambitious development plans, enabling achievement of their objectives of raising the living standards of citizens, boosting our economic capabilities, as well as achieving the outlook of our country as a major regional financial and commercial center that restores its historic role.

Gulf Bank remains committed to maximizing our shareholders' returns and providing our customers with world-class standards of customer satisfaction, product innovation and competitive value. We will continue to deliver our core banking competencies, and we will move forward with a customer-centric policy, to streamline our processes, and to fortify the Bank's infrastructure.

In Conclusion

We look forward with confidence to opening a new chapter in the growth and progress of Gulf Bank, as we embrace imaginative and innovative strategies that will transform the nature and status of our operations. 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, H.H. the Prime Minister Sheikh Nasser Al Mohammed Al Ahmed Al Sabah, and H.E. the Governor of the Central Bank of Kuwait, Sheikh Salem Abdulaziz Al Sabah, may Almighty God safeguard them, for their continued support and guidance for our country's economic institutions.

Ali Abdul Rahman Al Rashaid Al Bader
Chairman

The Award Winning Bank

- *Best Interactivity Award*
- *2010 Localization Award*
- *GCC Employer of the Year Award*
- *Best Retail Bank Award*
- *Citibank Award for International Payment Performance*
- *J.P.Morgan Quality Recognition Award for Operational Excellence*
- *Best PR Campaign Award*
- *Best Customer Contact Center*
- *Best New Product Award*
- *Best Loyalty Program Award*

Gulf Bank Management

"We have redefined our Vision; we seek to dominate the local retail and commercial banking space, thereby fulfilling our Purpose, that of providing superior financial services that advance the well being of our community. These will serve as our compass and help to guide our decisions and actions for the future."

Michel Accad
CGM and CEO

Sitting from left to right:

Fawzy Althunayan - General Manager Board Affairs; **Ali Al-Rashaid Al-Bader** - Chairman; and **Michel Accad** - CEO & CGM

Back row left to right:

Mark Magnacca - Chief Marketing Officer; **Aly Shalaby** - General Manager, Retail Banking; **Abdullatif Al-Hamad** - General Manager, Corporate Banking; **Grant Jackson** - General Manager, Treasury; **Khaled Al-Mutawa** - General Manager, International Banking; **Carlos Ribeiro** - Chief Financial Officer; **Surour Alsamerai** - General Manager, Human Resources; **Hatem Badr** - General Manager, Legal Department; **Saleem Sheikh** - Chief Risk Officer.

Financial Review

Income Statement Analysis

(KD Millions)	**2010**	2009
Net Interest Income	**103.4**	89.6
Other Operating Income	**78.7**	41.1
Operating Income	**182.1**	130.7
Operating Expenses	**(46.8)**	(47.6)
Operating Profit before Provisions	**135.3**	83.1
Provisions	**(115.3)**	(111.2)
Operating Profit	**20.0**	(28.1)
Directors' emoluments	**(0.2)**	-
KFAS/ National Labour Support Tax / Zakat	**(0.8)**	-
Net Profit	**19.0**	(28.1)

Gulf Bank reported an operating profit of KD 135.3 million for 2010 compared to KD 83.1 million achieved in 2009. The 2010 operating profits included non-recurring items totalling to KD 40 million.

Net interest income was higher mainly due to improved margins, effective interest rate adjustments (refer note 5 to the financial statements) and some one-offs, partly offset by higher interest suspended on non-performing loans.

Other operating income was higher by KD 37.6 million compared to 2009 mainly due to non-recurring items. Fee income grew by 7% over 2009.

In line with its conservative policy, however, the Bank retained the largest portion of the operating profit to increase specific and excess general loan provisions. The net profit for the year was KD 19.0 million against a loss of KD 28.1 million in 2009.

Statement of Financial Position Analysis

Selected balance sheet data (KD millions)	**31-Dec 2010**	31-Dec 2009
Cash & short term funds: balances with CBK	**74.3**	160.3
Loans and advances to banks	**21.8**	9.3
Loans and advances to customers	**3,181.4**	3,265.8
Deposits with banks and OFIs	**111.2**	70.3
Investment securities	**92.2**	142.6
Total assets	**4,599.8**	4,743.9
Due to banks	**67.3**	89.9
Subordinated loans	**84.2**	86.0
Deposits from Other Financial Institutions	**886.6**	919.0
Customer deposits	**3,070.9**	3,149.4
Total Liabilities	**4,189.1**	4,336.1
Shareholders' funds	**410.7**	407.9
Total Liabilities and Equity	**4,599.8**	4,743.9

Total assets decreased by KD 144 million or 3% to KD 4.6 billion at 31st December 2010. 69% of the balance sheet was deployed in customer loans and advances at 31st December 2010, similar levels as in 2009.

Deposits with banks and other financial institutions ('OFIs') increased by KD 40.9 million (58%).

The bank's total liabilities reduced by 3% from 4.3 billion to KD 4.2 billion in 2010. The total liabilities mainly comprise of deposits from customers (73%) and banks and other OFI's (21%).

Capital Mangement and Allocation

Capital Structure:

The table below details the regulatory capital resources for Gulf Bank ('the Bank') as at 31 December 2010 and 31 December 2009.

Capital Structure

Composition of Capital	(KD Million)		
	31-Dec-10	31-Dec-09	Variance
Tier 1 Capital			
Paid-up share capital	**250.8**	250.8	-
Reserves	**178.0**	180.9	(2.9)
Retained earnings	**(7.4)**	(26.4)	19.0
Less: Treasury Shares	**(44.2)**	(49.6)	5.4
Total Qualifying Tier 1 Capital	**377.2**	355.7	21.5
Tier 2 Capital			
Interim Retained Profits	**-**	-	-
Property Revaluation Reserve (45 %)	**7.3**	7.5	(0.2)
Fair Valuation Reserve (45%)	**7.8**	16.0	(8.2)
General Provisions (1.25% of Credit RWAs)	**32.2**	36.3	(4.1)
Subordinated Debt	**67.3**	77.4	(10.1)
Other deduction	**-**	-	-
Total Qualifying Tier 2 Capital	**114.6**	137.2	(22.6)
Total Eligible Regulatory Capital (Tier 1 and Tier 2)	**491.8**	492.9	(1.1)

Qualifying Tier 1 capital increased by KD 21.5 million to KD 377.2 million reflecting the growth in retained earnings and reserves.

Qualifying Tier 2 capital decreased to KD 114.6 million, due to the application of the cumulative discount factor based on the maturity profile of the subordinated debt and decrease in fair value reserves.

Capital Management:

Gulf Bank's capital adequacy policy is to ensure and maintain an adequate 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 done to ensure that the Bank's internal capital targets are consistent with the approved risk appetite 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 2010 and 31 December 2009.

Credit risk exposures	(KD Million)	
	31-Dec-10	31-Dec-09
Credit risk weighted assets	**2,578.2**	2,907.1
Less: Excess general provisions	**(30.2)**	(5.7)
Net credit risk weighted assets	**2,548.0**	2,901.4
Market risk weighted assets	**85.5**	12.8
Operational risk weighted exposures	**169.9**	178.7
Total risk weighted exposures	**2,803.4**	3,092.9
Capital requirements		
Credit risk		
Cash items	**0.0**	0.0
Claims on sovereigns	**0.7**	1.8
Claims on public sector entities (PSEs)	**4.1**	4.0
Claims on banks	**18.6**	17.4
Claims on corporates	**135.3**	133.5
Regulatory retail exposures	**68.8**	68.9
Past due exposures	**26.9**	45.5
Other assets	**55.0**	77.8
Credit risk capital requirement	**309.4**	348.9
Less: Excess general provision (12%)	**(3.6)**	(0.7)
Net Credit risk capital requirement	**305.8**	348.2
Market risk		
Interest rate position risk	**0.2**	1.4
Foreign exchange risk	**10.1**	0.1
Capital requirement for market risk	**10.3**	1.5
Capital requirement for operational risk	**20.4**	21.4
TOTAL CAPITAL REQUIRMENT	**336.4**	371.1
Capital adequacy ratios (per cent)		
Tier 1 ratio	**13.45%**	11.5%
Total capital adequacy ratio	**17.54%**	15.9%

The total risk-weighted exposure as at 31 December 2010 was KD 2,805 million, requiring a regulatory capital at 12%, of KD 336 million.

Gulf Bank's regulatory capital as at 31 December 2010 was KD 492 million, translating to a capital adequacy ratio of 17.54%.

Risk Management

Risk Management Control Overview:

All banking activities involve analysis, evaluation, acceptance and management of some degrees of risk. Gulf Bank offers a variety of financial services through its operating segments – retail, corporate, treasury and international banking that exposes the Bank to various types of risks viz. credit risk, liquidity risk, market risk and operational risk.

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 analyse risks, set appropriate limits and control/monitor these risks and limits regularly. 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 also play a key role, particularly in terms of monitoring adherence to policies and procedures and reviewing the effectiveness of the Bank's internal control systems. In accordance with Central Bank of Kuwait (CBK) requirements, the Risk Management function reports directly to the Chief General Manager and Chief Executive Officer.

The Risk Management Policy document, approved by the Executive Committee, provides the necessary information on Risk Management philosophy, objectives, management and organization structure.

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 appetite 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 was undertaken for necessary enhancements.

To further strengthen the risk management system, the Bank is at an advanced stage of selecting an Enterprise Risk Management (ERM) system encompassing all areas of Risk Management.

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 25 (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.

Market risk in the Bank arises mainly from:

- Foreign currency trading operations and other open FX positions.
- Interest rate sensitive assets in the trading book.

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 undertakes 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 open foreign exchange positions are very small and in strict adherence with the open currency position limits set by CBK. The Bank does not trade in fixed income or equity securities.

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.

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 is the risk arising from the inability to meet its obligations on time without incurring unacceptable losses. Liquidity risk arises in the general funding of a Bank's activities. Gulf Bank has historically maintained a steady balance of liquid assets with the liquidity levels maintained above the CBK's minimum requirements. Note 25 (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 within which processes are documented, conflicts of interests are avoided through a clear segregation of duties, authorisation is independent and transactions are reconciled and monitored on a regular basis. 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.

The Bank's current philosophy for management of operational risk is based on the premise of identifying risks as early as possible, which is the responsibility of the process owners. Upon identification, the risk management department in conjunction with the relevant process owner evaluates the risks and regularly monitors them. The operational risks are identified and assessed on the basis of impact and likelihood of occurrence. The Bank plans to implement an operational risk management system which will facilitate monitoring and reporting of operational risk events to the senior management and the Board.

Interest Rate Risk (Banking Book):

Interest rate risk for the Bank arises from the possibility that changes in the interest rate will affect the fair value of future 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 re-price in a given period.

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. The potential profit and loss implications are regularly reviewed at ALCO to ensure 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 based and tied either to the CBK discount rate, Kuwait interbank offered rates ("KIBOR") or USD LIBOR.

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 50% deposits maturing within 3 months, the interest rate risk is minimal.

Effective 30 March 2008, CBK revised lending norms relating to consumer and installment loans. For any loans granted after 30 March 2008, interest rate is fixed for the initial five year period and thereafter can be revised upward or downward by maximum 2% for the each subsequent five year period. The Bank is exposed to interest rate risk to this extent. Most foreign currency (FC) loans re-price based on the terms of the contract whilst the FC deposits re-price at maturity.

Equity Risk (Banking Book):

The 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.

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 a 30% decline in value of an individual investment as significant and impairments over 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 25 (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').

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 Bank also has a separate, specialist remedial credit unit that is responsible for handling non-performing loans. The remedial unit reports on a monthly basis the progress made on each non-performing loan account to CPC and the Management Sub committee (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).

Credit Risk Exposure *(continued)*

Gross Credit Risk Exposure

The summary of Gulf Bank's gross credit risk exposure (before credit risk mitigation) in 2010 and 2009 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-10**	31-Dec-09	**Growth**
Funded Gross Credit Exposure	**4,648.7**	4,762.7	**(2.4)%**
Unfunded Gross Credit Exposure	**1,570.9**	1,649.7	**(4.8)%**
Total Gross Credit Exposure	**6,219.6**	6,412.4	**(3.01)%**

Funded gross credit exposure for 2010 is 74.7% (2009: 74.3%) of the total gross credit risk exposure.

Gross credit risk exposure divided between funded and unfunded on the basis of standard portfolio is detailed in the credit risk exposure section.

Average Credit Risk exposure

Average credit risk exposure as at 31 December 2010 and 31 December 2009 is detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December 2010

	2010			2009		
(KD Thousands)	**Funded**	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**27,468**	**-**	**27,468**	24,240	-	24,240
Claims on sovereigns	**901,523**	**193,137**	**1,094,660**	771,393	220,082	991,475
Claims on public sector entities (PSEs)	**12,476**	**170,497**	**182,973**	10,627	175,156	185,783
Claims on Banks	**306,593**	**289,051**	**595,644**	446,349	246,897	693,246
Claims on corporates	**1,307,436**	**792,223**	**2,099,659**	1,541,010	1,210,639	2,751,649
Retail exposures	**618,935**	**39,169**	**658,104**	635,809	36,769	672,578
Past due exposures	**525,759**	**3,778**	**529,537**	474,577	15,867	490,444
Other assets	**916,565**	**118,467**	**1,035,032**	1,014,028	203,928	1,217,956
	4,616,755	**1,606,322**	**6,223,077**	4,918,033	2,109,338	7,027,371

Average funded gross credit risk exposure for 2010 is 74.2% (2009: 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 2009 to 31 December 2010 inclusive.

Geographical Distribution of Gross Credit Risk Exposures

The geographical distribution of the total gross credit risk exposure, broken down by standard credit risk portfolio as at 31 December 2010 and 31 December 2009 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 2010 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	**30,966**	**-**	**-**	**-**	**-**	**-**	**30,966**
Claims on sovereigns	**906,297**	**84,180**	**-**	**-**	**58,926**	**-**	**1,049,403**
Claims on public sector entities (PSEs)	**-**	**171,872**	**-**	**-**	**-**	**-**	**171,872**
Claims on Banks	**102,318**	**199,557**	**90,590**	**36,103**	**159,798**	**264**	**588,630**
Claims on corporates	**2,103,384**	**30,229**	**27,494**	**8,699**	**20,619**	**34,006**	**2,224,431**
Regulatory retail exposures	**657,158**	**28**	**905**	**-**	**-**	**292**	**658,383**
Past due exposures	**439,800**	**30,773**	**-**	**-**	**-**	**-**	**470,573**
Other assets	**961,113**	**6,304**	**6**	**1,840**	**-**	**56,113**	**1,025,376**
	5,201,036	**522,943**	**118,995**	**46,642**	**239,343**	**90,675**	**6,219,634**
Percentage of gross exposure by geographical region	**83.6%**	**8.4%**	**1.9%**	**0.7%**	**3.9%**	**1.5%**	**100.0%**

Total gross credit risk exposures as at 31 December 2009 - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash Items	29,408	-	-	-	-	-	29,408
Claims on sovereigns	919,638	142,193	-	-	74,568	-	1,136,399
Claims on public sector entities (PSEs)	-	165,296	-	-	-	-	165,296
Claims on Banks	35,002	261,237	99,590	43,778	137,164	358	577,129
Claims on corporates	1,931,701	55,563	56,543	-	27,497	45,167	2,116,471
Regulatory retail exposures	654,188	230	503	-	49	297	655,267
Past due exposures	596,897	73,397	-	-	-	-	670,294
Other Assts	959,796	9,709	57	3,707	-	88,851	1,062,120
	5,126,630	707,625	156,693	47,485	239,278	134,673	6,412,384
Percentage of gross exposure by geographical region	79.9%	11.1%	2.4%	0.7%	3.7%	2.2%	100.0%

The majority of the Bank's credit exposure is in Kuwait which comprises KD 5.20 billion (83.6% of total gross credit exposure) at 31 December 2010, compared with KD 5.13 billion (79.9% of total gross credit exposure) at 31 December 2009.

Credit Risk Exposure *(continued)*

Geographical Distribution of Average Credit Risk Exposures:

The average gross credit risk exposure for 2010 and 2009, broken down by geographical region and standard credit risk portfolio is shown below.

Total gross credit risk exposures as at 31 December 2010 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	27,468	-	-	-	-	-	27,468
Claims on sovereigns	901,523	123,029	-	-	70,108	-	1,094,660
Claims on public sector entities (PSEs)	6,678	176,294	-	-	-	-	182,972
Claims on Banks	76,019	220,200	116,105	44,664	138,417	239	595,644
Claims on corporates	1,965,524	48,852	19,763	2,011	24,998	38,511	2,099,659
Regulatory retail exposures	656,766	117	871	-	49	301	658,104
Past due exposures	521,524	8,013	-	-	-	-	529,537
Other assets	947,823	8,969	39	2,581	-	75,621	1,035,033
	5,103,325	585,474	136,778	49,256	233,572	114,672	6,223,077
Percentage of gross exposure by geographical region	82.0%	9.4%	2.2%	0.8%	3.8%	1.8%	100.0%

Total gross credit risk exposures as at 31 December 2009 (Average) - Region wise

(KD Thousands)	Kuwait	Other Middle East	Western Europe	USA & Canada	Asia Pacific	Rest of World	Total
Cash items	24,240	-	-	-	-	-	24,240
Claims on sovereigns	771,393	145,432	-	-	74,650	-	991,475
Claims on public sector entities (PSEs)	-	182,196	3,586	-	-	-	185,782
Claims on Banks	39,057	396,069	132,348	17,039	107,107	1,626	693,246
Claims on corporates	2,135,523	371,607	59,269	71,777	56,473	57,001	2,751,650
Regulatory retail exposures	671,693	240	281	16	60	288	672,578
Past due exposures	442,479	47,965	-	-	-	-	490,444
Other assets	1,101,532	10,042	40	3,690	-	102,652	1,217,956
	5,185,917	1,153,551	195,524	92,522	238,290	161,567	7,027,371
Percentage of gross exposure by geographical region	73.8%	16.4%	2.8%	1.3%	3.4%	2.3%	100.0%

Industry Segment Distribution of Gross Credit Risk Exposures:

The industry segment split of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2010 and 31 December 2009 is shown below.

Total gross credit risk exposures as at 31 December 2010 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Cons-truction	Manu-facturing	Real estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	30,966	30,966
Claims on sovereigns	-	-	-	-	-	-	-	1,049,403	1,049,403
Claims on public sector entities (PSEs)	-	-	-	-	-	-	-	171,872	171,872
Claims on Banks	-	588,630	-	-	-	-	-	-	588,630
Claims on corporates	5,278	385,831	357,035	34,897	724,076	351,118	-	366,196	2,224,431
Regulatory retail exposures	602,010	442	19,848	-	21,454	2,594	4,147	7,888	658,383
Past due exposures	21,475	48,651	26,092	-	15,626	1,661	317,175	39,893	470,573
Other assets	131,878	11,858	11,598	-	10,225	2,812	674,342	182,663	1,025,376
	760,641	1,035,412	414,573	34,897	771,381	358,185	995,664	1,848,881	6,219,634
Percentage of exposure by industry segment	12.2%	16.6%	6.7%	0.6%	12.4%	5.8%	16.0%	29.7%	100.0%

Total gross credit risk exposures as at 31 December 2009 - Industry wise

(KD Thousands)	Personal	Financial	Trade and commerce	Crude oil and gas	Cons-truction	Manu-facturing	Real estate	Other Services	Total
Cash items	-	-	-	-	-	-	-	29,408	29,408
Claims on sovereigns	-	-	-	-	-	-	-	1,136,399	1,136,399
Claims on public sector entities (PSEs)	-	28,406	-	-	-	-	-	136,890	165,296
Claims on Banks	-	577,129	-	-	-	-	-	-	577,129
Claims on corporates	4,116	350,127	299,017	37,991	710,365	328,380	-	386,475	2,116,471
Regulatory retail exposures	599,667	311	19,260	417	20,696	2,683	5,678	6,555	655,267
Past due exposures	33,991	98,420	13,582	-	46,936	5,521	390,427	81,417	670,294
Other assets	137,255	44,560	26,747	-	9,726	2,884	626,495	214,453	1,062,120
	775,029	1,098,953	358,606	38,408	787,723	339,468	1,022,600	1,991,597	6,412,384
Percentage of exposure by industry segment	12.1%	17.1%	5.6%	0.6%	12.3%	5.3%	15.9%	31.1%	100.0%

Credit Risk Exposure *(continued)*

Residual Maturity Distribution of Gross Credit Risk Exposures:

The residual maturity of the gross credit risk exposure (after specific provisions), broken down by standard credit risk portfolio, as at 31 December 2010 and 31 December 2009 is shown below.

Total gross credit risk exposure as at 31 December 2010 **Residual Maturity**

(KD Thousands)	Up to 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	30,966	-	-	-	-	-	30,966
Claims on sovereigns	372,412	187,760	159,725	190,043	117,015	22,448	1,049,403
Claims on public sector entities (PSEs)	-	-	-	39,284	43,358	89,230	171,872
Claims on Banks	224,594	136,402	12,281	54,456	85,434	75,463	588,630
Claims on corporates	154,849	489,465	157,858	331,789	299,327	791,143	2,224,431
Regulatory retail exposures	41,613	15,851	9,446	17,252	40,850	533,371	658,383
Past due exposures	308,655	946	2,783	74,341	21,259	62,589	470,573
Other assets	79,514	133,542	49,185	329,175	155,248	278,712	1,025,376
	1,212,603	963,966	391,278	1,036,340	762,491	1,852,956	6,219,634
Percentage of gross exposure by residual maturity	19.5%	15.5%	6.3%	16.7%	12.3%	29.7%	100.0%

Total gross credit risk exposure as at 31 December 2009 Residual Maturity

(KD Thousands)	Up to 1 month	1 to 3 month	3 to 6 month	6 to 12 months	1 to 3 years	Over 3 years	TOTAL
Cash items	29,408	-	-	-	-	-	29,408
Claims on sovereigns	356,735	224,442	108,300	198,241	149,504	99,177	1,136,399
Claims on public sector entities (PSEs)	-	-	37,158	-	70,778	57,360	165,296
Claims on Banks	250,262	96,939	2,391	79,192	87,954	60,391	577,129
Claims on corporates	366,347	514,118	173,246	333,523	240,607	488,630	2,116,471
Regulatory retail exposures	34,857	14,426	8,681	18,984	33,274	545,045	655,267
Past due exposures	670,294	-	-	-	-	-	670,294
Other assets	136,487	131,104	94,457	351,046	45,449	303,577	1,062,120
	1,844,390	981,029	424,233	980,986	627,566	1,554,180	6,412,384
Percentage of gross exposure by residual maturity	28.8%	15.3%	6.6%	15.3%	9.8%	24.2%	100.0%

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 2010 and 31 December 2009 is shown below.

Impaired loans and provisions (by industry segment) at 31 December 2010

	Impaired Loans (NPLs)		Balance Sheet Provisions Cash and non cash			
(KD Thousands)	**Past due portion**	**Balance**	**Specific**	**General**	**Total**	**Specific Provisions Cover**
Personal	**21,475**	**39,704**	**18,229**	**7,354**	**25,583**	**45.9%**
Financial	**48,651**	**134,520**	**85,884**	**3,280**	**89,164**	**63.8%**
Trade and commerce	**26,022**	**33,570**	**7,768**	**3,007**	**10,775**	**23.1%**
Crude oil and gas	**-**	**-**	**-**	**216**	**216**	**-**
Construction	**14,781**	**21,800**	**10,301**	**4,804**	**15,105**	**47.3%**
Manufacturing	**1,608**	**8,883**	**7,281**	**2,812**	**10,093**	**82.0%**
Real estate	**315,437**	**337,362**	**21,931**	**6,268**	**28,199**	**6.5%**
Government	**-**	**-**	**-**	**-**	**-**	**-**
Others	**39,893**	**66,011**	**28,040**	**34,703**	**62,743**	**42.5%**
Total	**467,867**	**641,850**	**179,434**	**62,444**	**241,878**	**28.0%**

Impaired loans and provisions (by industry segment) at 31 December 2009

	Impaired Loans (NPLs)		Balance Sheet Provisions Cash and non cash			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Personal	24,165	59,010	34,858	7,684	42,542	59.1%
Financial	98,507	153,912	55,420	2,946	58,366	36.0%
Trade and commerce	13,679	28,811	15,588	2,656	18,244	54.1%
Crude oil and gas	-	410	410	303	713	100.0%
Construction	46,239	98,916	56,967	4,663	61,630	57.6%
Manufacturing	6,506	19,718	13,212	2,380	15,592	67.0%
Real estate	391,891	623,610	231,864	5,752	237,616	37.2%
Government	-	1,515	1,515	-	1,515	100.0%
Others	83,765	162,724	81,509	15,653	97,162	50.1%
Total	664,752	1,148,626	491,343	42,037	533,380	42.8%

Non-performing loans ('NPL's') have decreased by KD 506.8 million in 2010, as compared to KD 666.1 million increase as on 31 December 2009 (for details refer Note 13 and 25 of the financial statements and the following table).

Impaired Loans and Provisions *(continued)*

Provisions Charge by Industry Segment:

The industry segment split of the provision charges and write-offs in 2010 are shown below.

Provision Charges and Write - offs during 2010 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD Thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	**(16,629)**	**(330)**	**(16,959)**	**20,847**
Financial	**30,464**	**334**	**30,798**	**2,938**
Trade and commerce	**(7,820)**	**351**	**(7,469)**	**2,716**
Crude oil and gas	**(410)**	**(87)**	**(497)**	**406**
Construction	**(46,666)**	**141**	**(46,525)**	**92,405**
Manufacturing	**(5,931)**	**432**	**(5,499)**	**102**
Real estate	**(209,933)**	**516**	**(209,417)**	**211,861**
Government	**(1,515)**	**-**	**(1,515)**	**1,590**
Other	**(53,469)**	**19,050**	**(34,419)**	**75,884**
Total	**(311,909)**	**20,407**	**(291,502)**	**408,749**

Provision Charges and Write - offs during 2009 (by Industry Segment)

	Charge/(Release) for impairment provisions			
(KD Thousands)	Specific Charges	General Charges	Total Charges	Write Offs
Personal	4,534	(4,297)	237	33
Financial	48,715	(28,003)	20,712	
Trade and commerce	14,309	(2,585)	11,724	
Crude oil and gas	16	136	152	
Construction	37,755	(6,338)	31,417	
Manufacturing	4,843	(2,268)	2,575	
Real estate	22,092	(5,854)	16,238	
Government	91	(425)	(334)	
Other	46,101	10,020	56,121	
Total	178,456	(39,614)	138,842	33

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 2010 and 31 December 2009 is shown below.

Impaired loans and provisions (by Geographical Region)at 31 December 2010

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	**437,094**	**605,521**	**173,878**	**61,902**	**235,780**	**28.7%**
Other Middle East	**30,773**	**36,329**	**5,556**	**95**	**5,651**	**15.3%**
Western Europe	**-**	**-**	**-**	**3**	**3**	**0.0%**
USA & Canada	**-**	**-**	**-**	**70**	**70**	**0.0%**
Asia Pacific	**-**	**-**	**-**	**37**	**37**	**0.0%**
Rest of World	**-**	**-**	**-**	**337**	**337**	**0.0%**
Total	**467,867**	**641,850**	**179,434**	**62,444**	**241,878**	**28.0%**

Impaired loans and provisions (by Geographical Region) at 31 December 2009

	Impaired Loans (NPLs)		Balance Sheet Provisions			
(KD Thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific Provisions Cover
Kuwait	591,355	995,981	412,095	40,935	453,030	41.4%
Other Middle East	73,397	151,104	77,707	325	78,032	51.4%
Western Europe	-	26	26	278	304	100.0%
USA & Canada	-	-	-	13	13	0.0%
Asia Pacific	-	-	-	27	27	0.0%
Rest of World	-	1,515	1,515	459	1,974	100.0%
Total	664,752	1,148,626	491,343	42,037	533,380	42.8%

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 Conversion Factors ('CCF') but before Credit Risk Mitigation ('CRM') as at 31 December 2010 and 31 December 2009, broken down by standard credit risk portfolio, is shown below.

Gross credit risk exposure before CRM as at 31 December 2010

	Gross credit exposure			Credit exposure before CRM			
(KD Thousands)	Funded	Unfunded	Total	Funded credit exposure	Unfunded credit after CCF	FX after CCF	Total before CRM
Cash items	30,966	-	30,966	30,966	-	-	30,966
Claims on sovereigns	906,297	143,106	1,049,403	906,297	143,106	25	1,049,428
Claims on PSEs	-	171,872	171,872	-	171,872	-	171,872
Claims on banks	307,942	280,688	588,630	307,942	165,828	175	473,945
Claims on corporates	1,384,645	839,786	2,224,431	1,384,645	427,625	-	1,812,270
Retail exposures	618,240	40,143	658,383	618,240	17,137	-	635,377
Past due exposures	467,867	2,706	470,573	467,867	2,002	-	469,869
Other assets	932,774	92,602	1,025,376	932,774	84,035	-	1,016,809
Total	4,648,731	1,570,903	6,219,634	4,648,731	1,011,605	200	5,660,536

Gross credit risk exposure before CRM as at 31 December 2009

	Gross credit exposure			Credit exposure before CRM			
(KD Thousands)	Funded	Unfunded	Total	Funded credit exposure	Unfunded credit after CCF	FX after CCF	Total before CRM
Cash items	29,408	-	29,408	29,408	-	-	29,408
Claims on sovereigns	919,638	216,761	1,136,399	919,638	216,761	44	1,136,443
Claims on PSEs	-	165,296	165,296	-	165,296	-	165,296
Claims on banks	311,125	266,004	577,129	311,125	171,924	9	483,058
Claims on corporates	1,314,274	802,197	2,116,471	1,314,274	433,549	63	1,747,886
Retail exposures	617,412	37,855	655,267	617,412	16,062	-	633,474
Past due exposures	664,752	5,542	670,294	664,752	3,422	-	668,174
Other assets	906,073	156,047	1,062,120	906,073	135,367	-	1,041,440
Total	4,762,682	1,649,702	6,412,384	4,762,682	1,142,381	116	5,905,179

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 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 lower of two valuations being taken) and quoted shares are valued daily using current stock exchange prices.

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 31 December 2010 and 31 December 2009 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 2010

	Credit exposure/CRM				Risk - weighted assets		
		CRM					
(KD Thousands)	Exposure before CRM	Eligible collateral	Eligible guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	**30,966**	**-**	**-**	**30,966**	**-**	**-**	**-**
Claims on sovereigns	**1,049,428**	**-**	**-**	**1,049,428**	**6,173**	**-**	**6,173**
Claims on PSEs	**171,872**	**-**	**-**	**171,872**	**-**	**34,374**	**34,374**
Claims on banks	**473,945**	**609**	**-**	**473,336**	**144,529**	**10,418**	**154,947**
Claims on corporates	**1,812,270**	**674,705**	**10,342**	**1,127,223**	**-**	**1,127,223**	**1,127,223**
Retail exposures	**635,377**	**58,674**	**70**	**576,633**	**-**	**572,946**	**572,946**
Past due exposures	**469,869**	**245,280**	**190**	**224,399**	**-**	**223,856**	**223,856**
Other assets	**1,016,809**	**651,540**	**-**	**365,269**	**-**	**458,660**	**458,660**
Total	**5,660,536**	**1,630,808**	**10,602**	**4,019,126**	**150,702**	**2,427,477**	**2,578,179**

Credit risk exposure after CRM; risk-weighted assets (RWAs) as at 31 December 2009

	Credit exposure/CRM				Risk - weighted assets		
		CRM					
(KD Thousands)	Exposure before CRM	Eligible collateral	Eligible guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	29,408	-	-	29,408	-	-	-
Claims on sovereigns	1,136,443	-	-	1,136,443	14,914	-	14,914
Claims on PSEs	165,296	-	-	165,296	-	33,059	33,059
Claims on banks	483,058	883	-	482,175	144,274	531	144,805
Claims on corporates	1,747,886	625,697	9,828	1,112,361	-	1,112,361	1,112,361
Retail exposures	633,474	55,519	243	577,712	-	574,000	574,000
Past due exposures	668,174	265,721	-	402,453	-	379,534	379,534
Other assets	1,041,440	536,683	-	504,757	-	648,415	648,415
Total	5,905,179	1,484,503	10,071	4,410,605	159,188	2,747,900	2,907,088

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

Trading Portfolio

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.

The details of the market risk capital charge for Gulf Bank as at 31 December 2010 and 31 December 2009 is shown in the following table.

(KD Thousands)

Market Risk	**31-Dec-10**	31-Dec-09
Interest rate position risk	**163**	1,406
Foreign exchange risk	**10,097**	134
Total capital requirement for market risk	**10,260**	1,540
Market risk - weighted assets	**85,466**	12,828

On 31 December 2010 total market risk capital charge of KD 10,260 thousand was equivalent to market risk-weighted assets of KD 85.5 million. Market risk-weighted assets were KD 72.6 million higher than December 2009.

Operational Risk

The 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 2010 are shown in the following tables.

Operational Risk as at 31 December 2010

(KD Thousands)	**3 year average gross income**	**Beta factor**	**Operational risk capital charge**
Trading and sales	**27,042**	**18%**	**4,868**
Commercial banking	**69,147**	**15%**	**10,372**
Retail banking	**42,994**	**12%**	**5,159**
Total	**139,183**		**20,399**
Operational risk weighted exposure			**169,924**

Operational Risk as at 31 December 2009

(KD Thousands)	3 year average gross income	Beta factor	Operational risk capital charge
Trading and sales	31,760	18%	5,717
Commercial banking	66,968	15%	10,045
Retail banking	47,460	12%	5,695
Total	146,188		21,457
Operational risk weighted exposure			178,739

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 2010 total operational risk capital charge of KD 20.4 million was equivalent to operational risk-weighted exposure of KD 169.9 million.

Equity Risk in the Banking Book

Gulf Bank does not trade in 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. 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 2010 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 2010 is also shown.

Information related to the licensed bank's equity position in the banking book as at 31 December 2010

(KD Thousands)	**Publicly traded**	**Privately traded**	**Total investment securities**
Total fair value of investment securities	**6,653**	**85,565**	**92,218**
Unrealised gains in equity	**3,585**	**13,733**	**17,318**
Latent revaluation gains	**-**	**-**	**-**
Regulatory capital details			
Unrealised gains in Tier 2 capital (45 %)	**1,613**	**6,180**	**7,793**
Regulatory capital requirement	**562**	**9,361**	**9,923**
Income statement details			
Income from disposal of investment securities	**-**	**-**	**21,639**

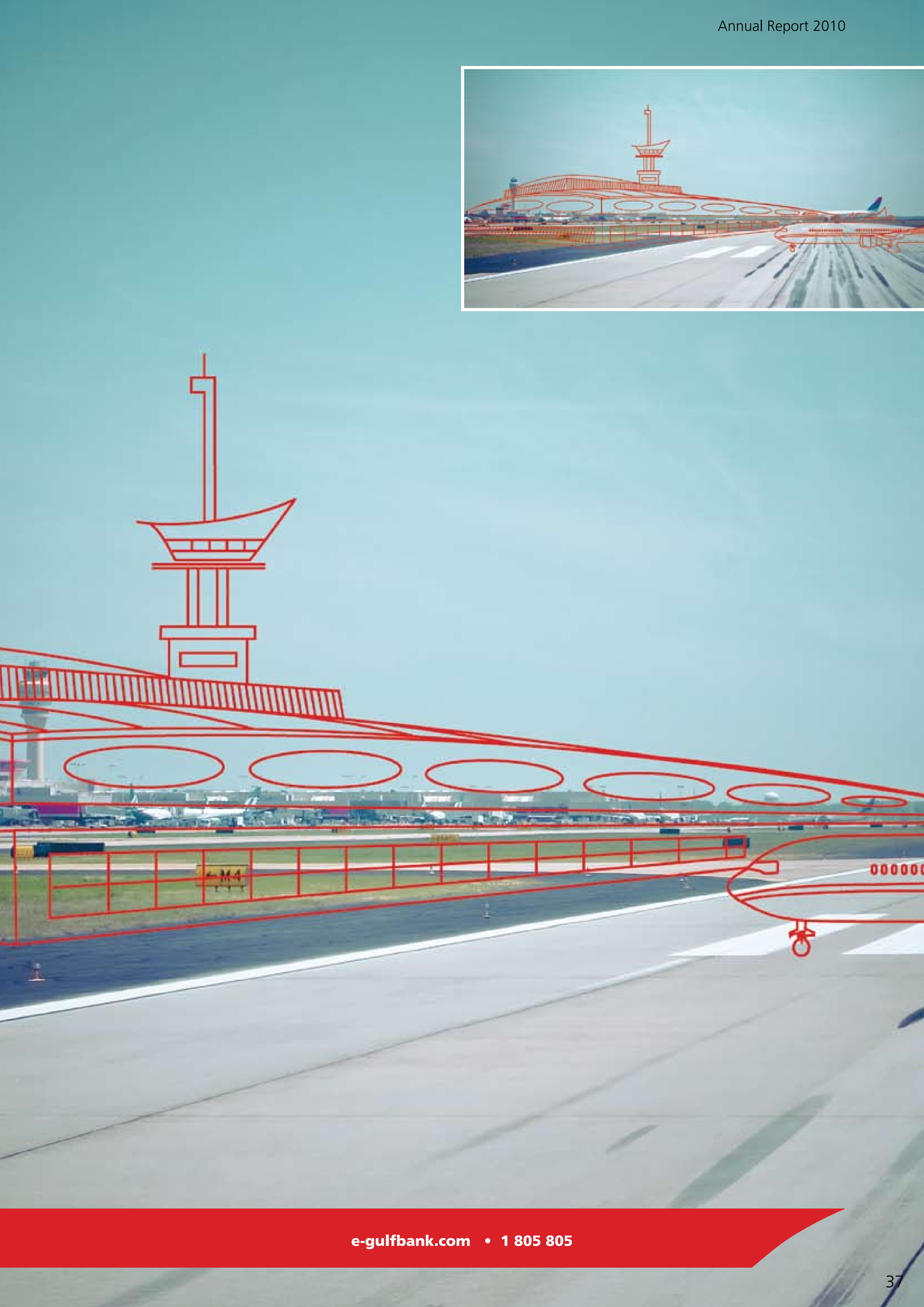
Information related to the licensed bank's equity position in the banking book as at 31 December 2009

(KD Thousands)	Publicly traded	Privately traded	Total investment securities
Total fair value of investment securities	10,718	131,928	142,646
Unrealised gains in equity	6,362	29,155	35,517
Latent revaluation gains	-	-	-
Regulatory capital details			
Unrealised gains in Tier 2 capital (45 %)	2,863	13,120	15,983
Regulatory capital requirement	866	13,907	14,773
Income statement details			
Income from disposal of investment securities	-	10,885	10,885

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 25 (B) to the financial statements.



Financial Statements

Independent Auditors' Report to the Shareholders of Gulf Bank K.S.C.

Report on the Financial Statements

We have audited the accompanying financial statements of Gulf Bank K.S.C. ('the Bank'), which comprise the statement of financial position as at 31 December 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about 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' judgment, 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 the 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 at 31 December 2010, and its financial performance and 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 account have been kept by the Bank and the financial statements, together with the contents of the report by the Bank's 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 the Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, as amended, Commercial Companies Law of 1960, as 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 violations of Capital Adequacy Regulations issued by Central Bank of Kuwait as stipulated by CBK Circular number 2/BS/184/2005 dated 21 December 2005, as amended, Commercial Companies Law of 1960, as amended, nor of the Articles of Association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of the audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended 31 December 2010.

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

JASSIM AHMAD AL – FAHAD
LICENCE NO.53 A
DELOITTE & TOUCHE
AL-FAHAD, AL-WAZZAN & CO.

10 January 2011
Kuwait

Income Statement

Year Ended 31 December 2010

	NOTES	**2010 KD 000's**	2009 KD 000's
Interest income	3,5	**180,764**	208,988
Interest expense	4	**(77,382)**	(119,353)
Net interest income		**103,382**	89,635
Net fees and commissions	7	**27,458**	25,571
Net gains/(losses) from dealing in foreign currencies and derivatives (including fair value movements of credit default swaps)	8	**33,706**	9,725
Realised gains from disposal of investments available-for-sale		**21,639**	10,885
Dividend income		**237**	275
Impairment loss on investments available-for-sale	14	**(4,800)**	(5,624)
Other income		**534**	203
OPERATING INCOME		**182,156**	130,670
Staff expenses		**28,198**	26,054
Occupancy costs		**2,811**	2,466
Depreciation		**2,551**	2,409
Other expenses		**13,292**	16,671
Operating expenses		**46,852**	47,600
OPERATING PROFIT BEFORE PROVISIONS		**135,304**	83,070
Charge/(release) of provisions			
- specific	6	**94,929**	148,656
- general	5,13,19	**20,407**	(39,614)
Loans written-off	5	**-**	2,101
		115,336	111,143
OPERATING PROFIT/(LOSS)		**19,968**	(28,073)
Directors' remuneration	23	**180**	-
National Labour Support Tax		**522**	-
Zakat		**207**	-
PROFIT/(LOSS) FOR THE YEAR		**19,059**	(28,073)
PROFIT/(LOSS) PER SHARE			
Basic and diluted profit/(loss) per share (Fils)	9	**8**	(12)

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

Statement of Comprehensive Income

Year Ended 31 December 2010

	NOTE	**2010 KD 000's**	2009 KD 000's
Profit/(loss) for the year		**19,059**	(28,073)
Other comprehensive income/(expense)			
Net unrealised gains on investments available-for-sale	14	**1,336**	31,564
Net realised gain transferred to statement of income on disposal of investments available-for-sale	14	**(19,535)**	(6,666)
Revaluation of premises and equipment		**(396)**	1,111
Other comprehensive (expense)/income for the year		**(18,595)**	26,009
Total comprehensive income/(loss) for the year		**464**	(2,064)

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

Statement of Financial Position

As at 31 December 2010

	NOTES	**2010 KD 000's**	2009 KD 000's
ASSETS			
Cash and short term funds	10	**280,193**	421,350
Treasury bills and bonds	11	**521,463**	486,206
Central Bank of Kuwait bonds	12	**310,055**	272,487
Deposits with banks and other financial institutions		**111,210**	70,267
Loans and advances to banks	13	**21,780**	9,258
Loans and advances to customers	13	**3,181,377**	3,265,753
Investments available-for-sale	14	**92,218**	142,646
Other assets	15	**55,657**	51,057
Premises and equipment		**25,824**	24,887
TOTAL ASSETS		**4,599,777**	4,743,911
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	16	**67,321**	89,874
Deposits from financial institutions	16	**886,577**	918,962
Customer deposits	17	**3,070,866**	3,149,440
Subordinated loans	18	**84,180**	86,040
Other liabilities	19	**80,118**	91,742
Total liabilities		**4,189,062**	4,336,058
EQUITY			
Share capital	20	**250,770**	250,770
Statutory reserve	21	**-**	-
General reserve	21	**-**	-
Share premium	21	**153,024**	153,024
Property revaluation reserve	21	**16,243**	16,639
Treasury share reserve	22	**24,993**	27,979
Fair valuation reserve		**17,318**	35,517
Accumulated deficit		**(7,386)**	(26,445)
		454,962	457,484
Treasury shares	22	**(44,247)**	(49,631)
		410,715	407,853
TOTAL LIABILITIES AND EQUITY		**4,599,777**	4,743,911

Ali Al-Rashaid Al-Bader
(Chairman)

Michel Accad
(Chief General Manager & Chief Executive Officer)

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

Statement of Cash Flows

Year Ended 31 December 2010

	NOTES	2010 KD 000's	2009 KD 000's
OPERATING ACTIVITIES			
Profit/(loss) for the year		**19,059**	(28,073)
Adjustments:			
Effective interest rate adjustment		**597**	9,907
Net gains from dealing in foreign currencies and derivatives		**(16,021)**	(31,988)
Realised gains from disposal of investments available-for-sale		**(21,639)**	(10,885)
Dividend income		**(237)**	(275)
Impairment loss on investments available-for-sale		**4,800**	5,624
Depreciation		**2,551**	2,409
Provisions		**115,336**	109,042
Loans written-off	5	**-**	2,101
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**104,446**	57,862
(Increase)/decrease in operating assets:			
Treasury bills and bonds		**(35,257)**	(59,609)
Central Bank of Kuwait bonds		**(37,568)**	(247,504)
Deposits with banks and other financial institutions		**(40,943)**	343,659
Loans and advances to banks		**(12,522)**	22,715
Loans and advances to customers		**(31,945)**	15,871
Other assets		**(4,600)**	18,744
(Decrease)/increase in operating liabilities:			
Due to banks		**(22,553)**	(1,635)
Deposits from financial institutions		**(32,385)**	260,454
Customer deposits		**(78,574)**	(676,281)
Other liabilities		**4,785**	(31,391)
Net cash used in operating activities		**(187,116)**	(297,115)
INVESTING ACTIVITIES			
Purchase of investments available-for-sale		**(461)**	(63)
Proceeds from sale of investments available-for-sale		**49,529**	43,668
Purchase of premises and equipment		**(3,884)**	(2,520)
Dividends received		**237**	275
Net cash from investing activities		**45,421**	41,360
FINANCING ACTIVITIES			
Due to Central Bank of Kuwait		**-**	(80,000)
Rights issue		**-**	376,156
Purchase of treasury shares		**(99)**	(4,927)
Sale of treasury shares		**2,497**	-
Proceeds from sale of treasury shares rights entitlement		**-**	700
Foreign exchange movement on subordinated loans		**(1,860)**	3,255
Net cash from financing activities		**538**	295,184
NET (DECREASE)/INCREASE IN CASH AND SHORT TERM FUNDS		**(141,157)**	39,429
CASH AND SHORT TERM FUNDS AT 1 JANUARY		**421,350**	381,921
CASH AND SHORT TERM FUNDS AT 31 DECEMBER	10	**280,193**	421,350
Additional cash flow information			
Interest received		**180,225**	209,919
Interest paid		**78,063**	152,758

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

Statement of Changes in Equity

Year Ended 31 December 2010

	RESERVES										
	Share Capital KD 000's	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 KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Total KD 000's
At 1 January 2009	125,385	89,438	2,356	46,044	15,528	27,979	10,619	(233,957)	(41,993)	(45,404)	37,988
Loss for the year	-	-	-	-	-	-	-	(28,073)	(28,073)	-	(28,073)
Other comprehensive income for the year	-	-	-	-	1,111	-	24,898	-	26,009	-	26,009
Total comprehensive income/(loss) for the year	-	-	-	-	1,111	-	24,898	(28,073)	(2,064)	-	(2,064)
Rights issue	125,385	-	-	250,771	-	-	-	-	250,771	-	376,156
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(4,927)	(4,927)
Sale of rights entitlement on treasury shares	-	-	-	-	-	-	-	-	-	700	700
Accumulated deficit set off against reserves (Note 21)	-	(89,438)	(2,356)	(143,791)	-	-	-	235,585	-	-	-
At 31 December 2009	250,770	-	-	153,024	16,639	27,979	35,517	(26,445)	206,714	(49,631)	407,853
Profit for the year	-	-	-	-	-	-	-	19,059	19,059	-	19,059
Other comprehensive expense for the year	-	-	-	-	(396)	-	(18,199)	-	(18,595)	-	(18,595)
Total comprehensive (loss)/income for the year	-	-	-	-	(396)	-	(18,199)	19,059	464	-	464
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(99)	(99)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	5,483	5,483
Loss on sale of treasury shares	-	-	-	-	-	(2,986)	-	-	(2,986)	-	(2,986)
At 31 December 2010	**250,770**	**-**	**-**	**153,024**	**16,243**	**24,993**	**17,318**	**(7,386)**	**204,192**	**(44,247)**	**410,715**

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

Notes to the Financial Statements

31 December 2010

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 2010 have been approved for issue by the Board of Directors on 10 January 2011. The Annual General Assembly of the shareholders has the power to amend these financial statements after issuance.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

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

The financial statements have been presented in Kuwaiti Dinars rounded off to the nearest thousand.

Statement of compliance

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 uncollectibility of financial assets.

Changes in accounting policies

The accounting policies are consistent with those used in the previous year, except as noted below.

During the year, the Bank has adopted the following new and amended IFRS, IAS and improvements:

- *IFRS 2: Share-based Payment:* Group Cash-settled Share-based Payment Transactions effective 1 January 2010.
- *IAS 39: Financial Instruments:* Recognition and Measurement – Eligible Hedged Items effective 1 July 2009.

Adoption of the above IFRS and IAS did not result in any change to the accounting policies, statement of financial position or performance of the Bank.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Bank.

- *IFRS 8 Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does review segment assets and liabilities, the Bank has continued to disclose this information in Note 28.
- *IAS 7 Statement of Cash Flows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

The following IASB Standards and IFRIC Interpretations have been issued as at 31 December 2010 but are not yet effective and have not been early adopted by the Bank:

- *IFRS 9 Financial Instruments:* Classification and Measurement: IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address impairment and hedge accounting. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- *IAS 24 Related Party Disclosures:* The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Bank does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- *IAS 32 Financial Instruments:* Presentation – Classification of Rights Issues (Amendment): The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no significant impact on the financial statements of the Bank.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:* IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Bank.

Improvements to IFRSs

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods beginning after either 1 July 2010 or 1 January 2011 except for IFRS 7: Financial Instruments – Disclosures which has been early adopted by the Bank. The amendments modify the required level of disclosures of credit risks and related collaterals.

- IFRS 3 Business Combinations
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes
- IAS 34 Interim Financial Reporting

The application of these standards and interpretation will be made in the financial statements when these standards and interpretation become effective.

b. Financial instruments

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

Classification

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 classified as "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 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:

- the contractual rights to receive cash flows from the asset have expired, or
- 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
- 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 the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, 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 statement of comprehensive income 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 "at fair value through income statement" are carried at fair value with resultant unrealised gains or losses arising from changes in 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 statement of comprehensive income.

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.

Cash and short term funds, treasury bills and bonds, Central Bank of Kuwait bonds, deposits with banks and other financial institutions, 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.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position 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, an 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 current 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;

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

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 cash facilities and from 1% to 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.

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

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 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.

'Day 1' profit or loss

When the transaction price is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a "Day 1" profit or loss) in "Net trading income". In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date at an agreed price (repos) are not derecognised in the statement of financial position. Amounts received under these agreements are treated as interest bearing liabilities and the difference between the sale and repurchase price treated as interest expense using the effective yield method.

Assets purchased with a corresponding commitment to resell at a specified future date at an agreed price (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as interest earning assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the statement of financial position 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 statement of financial position.

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 under operating 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 statement of comprehensive income and the ineffective portion is recognised in the income statement. For cash flow hedges affecting future transactions that subsequently result in the recognition of a financial asset or a financial liability, the associated gains or losses which are recognised in statement of comprehensive income 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 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 discontinued 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

f. End of service indemnity

The Bank provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Bank makes contributions to a government scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

g. 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.

h. Premises and equipment

Freehold land and buildings are initially recognised at cost. After initial recognition freehold land and buildings are carried at revalued amount, which is the fair value at the date of revaluation. The revaluation is carried out periodically by professional property valuers. The resultant revaluation surplus or deficit is recognised in the statement of comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised revaluation surplus is recognised in the income statement. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the income statement, the increase is recognised in the income statement. Upon disposal the revaluation reserve relating to the freehold land and building sold is transferred directly to retained earnings.

Equipment are stated at cost, less accumulated depreciation and impairment losses if any. Land is not depreciated. Depreciation of buildings and equipment is provided on a straight-line basis over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	5 to 10 years
Equipments	3 to 5 years

i. Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, external valuations or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

k. Leases

Operating lease payments are recognized as an operating expense in the income statement on a straight line basis over the lease term.

l. 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 the statement of financial position.

m. 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 statement of financial position date. Forward exchange contracts are valued at the forward rates ruling at the statement of financial position date. Any resultant gains or losses are taken to the income statement.

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

n. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and deposits with banks and other financial institutions (including Central Bank of Kuwait) having original maturities not exceeding three months and maturing within one month of the reporting date.

o. Significant accounting judgements, estimates and assumptions

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:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue its business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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, amortised cost or at fair value and whether the changes in fair value of instruments are reported in the income statement or statement of comprehensive income.

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.

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. In estimating these cash flows the Bank makes judgements about the borrower's financial situation and the net realisable value of collaterals. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement 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.

p. Segment reporting

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

3. INTEREST INCOME

	2010 KD 000's	2009 KD 000's
Treasury bills and bonds, Central Bank of Kuwait Bonds	**12,159**	13,296
Placements with banks	**2,443**	8,522
Loans and advances to banks and customers (refer note 5)	**166,162**	187,170
	180,764	208,988

4. INTEREST EXPENSE

	2010 KD 000's	2009 KD 000's
Call accounts	**3,066**	2,778
Savings accounts	**865**	1,504
Time deposits	**70,487**	111,958
Bank borrowings	**2,964**	3,113
	77,382	119,353

5. EFFECTIVE INTEREST RATE ADJUSTMENT AND LOANS WRITTEN-OFF

During the last quarter of 2009, the Bank charged KD 9,907 thousand to the income statement representing an adjustment to a portfolio of loans that had their terms modified in accordance with CBK - Circular No.2/105 dated 23 April 2008 and CBK letter No:2/105/3269 dated 10 March 2009 and has been computed based on revised estimates of future cash flows, discounted at original contracted rates of interest.

During the last quarter of 2009, the Bank also charged an amount of KD 2,101 thousand to the income statement representing a write-off of the principal balance amounts of a portfolio of loans that have had their terms modified during the year in accordance with the CBK – Circular No.2/105 dated 23 April 2008 and CBK letter No:2/105/3269 dated 10 March 2009.

During the last quarter of 2009, the Bank released an equivalent amount of KD 12,008 thousand to the income statement from the surplus general provision.

6. SPECIFIC PROVISIONS

		2010 KD 000's	2009 KD 000's
Loans and advances to customers	– Cash (Note 13)	**94,533**	178,291
	– Non-cash (Note 19)	**(2,018)**	198
Provision/(release) against fair value of open structured derivative transactions			
with certain customers and loans written-off (Note 15)		**2,414**	(29,833)
		94,929	148,656

7. NET FEES AND COMMISSIONS

	2010 KD 000's	2009 KD 000's
Total fees and commission income	**31,007**	28,945
Total fees and commission expense	**(3,549)**	(3,374)
	27,458	25,571

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

	2010 KD 000's	2009 KD 000's
Income from structured derivative transactions	**5,223**	6,520
Realised fair value gain on structured derivative transactions with customers	**3,227**	-
Unrealised fair value gains/(losses) on structured derivative transactions with customers (Note 5 and 15)	**1,496**	(29,833)
Unrealised fair value gains on credit default swaps	**14,525**	31,988
Others	**9,235**	1,050
	33,706	9,725

9. BASIC AND DILUTED PROFIT/ (LOSS) PER SHARE

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

	2010 KD 000's	2009 KD 000's
Profit/(loss) for the year	**19,059**	(28,073)
	Shares	Shares
Weighted average number of Bank's issued and paid up shares	**2,507,702,366**	2,421,822,148
Less: weighted average number of treasury shares	**(49,123,696)**	(41,159,216)
	2,458,578,670	2,380,662,932
	Fils	Fils
Basic and diluted profit/(loss) per share	**8**	(12)

10. CASH AND SHORT TERM FUNDS

	2010 KD 000's	2009 KD 000's
Balances with the Central Bank of Kuwait	**74,275**	160,342
Cash on hand and in current accounts with other banks	**76,121**	109,588
Deposits with banks and other financial institutions maturing within one month	**129,797**	151,420
	280,193	421,350

11. TREASURY BILLS AND BONDS

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

	2010 KD 000's	2009 KD 000's
Maturing within one year	**494,240**	439,946
Maturing after one year	**27,223**	46,260
	521,463	486,206

12. 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.

	2010 KD 000's	2009 KD 000's
Central Bank of Kuwait Bonds	**310,055**	272,487

13. 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 2010

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	**779,000**	**81**	**-**	**-**	**-**	**779,081**
Financial	**484,505**	**-**	**-**	**-**	**-**	**484,505**
Trade and commerce	**269,597**	**-**	**-**	**-**	**-**	**269,597**
Crude oil and gas	**20,445**	**-**	**-**	**-**	**-**	**20,445**
Construction	**247,732**	**8,548**	**-**	**2,654**	**-**	**258,934**
Manufacturing	**336,564**	**-**	**260**	**-**	**-**	**336,824**
Real estate	**932,145**	**-**	**-**	**-**	**-**	**932,145**
Others	**245,866**	**52,133**	**-**	**506**	**33,299**	**331,804**
	3,315,854	**60,762**	**260**	**3,160**	**33,299**	**3,413,335**
Less: Provision for impairment						**(231,958)**
						3,181,377
Loans and advances to banks	**3,367**	**2,265**	**14,030**	**2,118**	**-**	**21,780**

At 31 December 2009

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	809,260	-	-	-	-	809,260
Financial	453,119	7,614	25,490	-	-	486,223
Trade and commerce	265,145	2,646	-	-	-	267,791
Crude oil and gas	22,866	410	-	-	-	23,276
Construction	283,669	89,746	-	3,465	-	376,880
Government	-	-	-	-	1,515	1,515
Manufacturing	275,009	102	239	-	-	275,350
Real estate	1,117,626	-	-	-	-	1,117,626
Others	282,473	101,472	-	-	45,463	429,408
	3,509,167	201,990	25,729	3,465	46,978	3,787,329
Less: Provision for impairment						(521,576)
						3,265,753
Loans and advances to banks	4,875	4,383	-	-	-	9,258

Movement in provisions for impairment

	2010 KD 000's			2009 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**483,874**	**37,702**	**521,576**	297,078	61,303	358,381
Exchange adjustments	**3,166**	**-**	**3,166**	7,775	-	7,775
Recoveries	**1,159**	**-**	**1,159**	356	-	356
Amounts written-off	**(408,749)**	**-**	**(408,749)**	(33)	-	(33)
Amount provided for pre invasion debts not purchased by CBK	**-**	**-**	**-**	407	-	407
Charge/(write-back) to income statement (Note 5 and 6)	**94,533**	**20,273**	**114,806**	178,291	(23,601)	154,690
At 31 December	**173,983**	**57,975**	**231,958**	483,874	37,702	521,576

The specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait and IFRS. According to the Central Bank of Kuwait instructions, minimum general provision of 1% is provided on regular cash facilities and 0.5% on regular non-cash facilities, (net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision).

The Bank has initiated a legal proceeding against a customer in connection with structured derivative transactions and pending a final outcome for its recovery, an equivalent credit risk provision has been made against this amount.

	2010 KD 000's			2009 KD 000's		
Movement in provisions for impairment of loans and advances by class is as follows:	**Corporate lending**	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**481,784**	**39,792**	**521,576**	322,244	36,137	358,381
Exchange adjustments	**3,166**	**-**	**3,166**	7,775	-	7,775
Recoveries	**-**	**1,159**	**1,159**	-	356	356
Amounts written-off	**(387,902)**	**(20,847)**	**(408,749)**	-	(33)	(33)
Amount provided for pre invasion debts not purchased by CBK	**-**	**-**	**-**	407	-	407
Charge/(write-off) to income statement (Note 6)	**113,010**	**1,796**	**114,806**	151,358	3,332	154,690
At 31 December	**210,058**	**21,900**	**231,958**	481,784	39,792	521,576
Specific provision	**158,084**	**15,899**	**173,983**	450,108	33,766	483,874
General provision	**51,974**	**6,001**	**57,975**	31,676	6,026	37,702
	210,058	**21,900**	**231,958**	481,784	39,792	521,576

As at 31 December 2010, non-performing loans and advances amounted to **KD 641,850 thousand** (2009: KD 1,148,626 thousand) split between facilities granted pre-invasion and post-liberation as follows:

	2010		2009	
	Loans & Advances KD 000's	**Specific Provisions KD 000's**	Loans & Advances KD 000's	Specific Provisions KD 000's
Pre-invasion	**-**	**-**	13,072	13,072
Post-liberation	**641,850**	**173,983**	1,135,554	470,802
Total	**641,850**	**173,983**	1,148,626	483,874

In accordance with the Central Bank of Kuwait instruction no. 2/105/11480 dated 22 September 2010 the pre-invasion loans and the related provision have been written-off.

14. INVESTMENTS AVAILABLE-FOR-SALE

	2010 KD 000's	2009 KD 000's
Equity securities		
Quoted	**6,653**	10,718
Unquoted	**85,565**	131,928
	92,218	142,646

Quoted securities are traded in active markets. Fair values amounting to **KD 71,090 thousand** (2009: KD 110,152 thousand) of the unquoted securities are based on market observable data.

During the year, the Bank recognised a gain of **KD 1,336 thousand** (2009: gain of KD 31,564 thousand) in statement of comprehensive income as net unrealised gain arising from changes in fair value of investment securities and re-cycled a gain of **KD 19,535 thousand** (2009: gain of KD 6,666 thousand) to the income statement arising from the disposal of "investments available-for-sale". The Bank also recognized an impairment loss of **KD 4,800 thousand** (2009: KD 5,624 thousand) in the statement of income.

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 **KD 14,475 thousand** (2009: KD 21,776 thousand) are carried at cost.

15. OTHER ASSETS

	2010 KD 000's	2009 KD 000's
Accrued interest receivable	**34,881**	34,139
Sundry debtors and others	**20,776**	16,918
	55,657	51,057

Sundry debtors and others include **KD 10,688 thousand** (2009: KD 33,040 thousand) (including foreign exchange translation differences) being 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.

16. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2010 KD 000's	2009 KD 000's
Due to banks		
Current accounts and demand deposits	**11,046**	10,099
Time deposits	**56,275**	79,775
	67,321	89,874
Deposits from financial institutions		
Current accounts and demand deposits	**61,575**	51,625
Time deposits	**825,002**	867,337
	886,577	918,962

17. CUSTOMER DEPOSITS

	2010 KD 000's	2009 KD 000's
Current accounts	**546,747**	473,010
Savings accounts	**230,795**	226,027
Time deposits	**2,293,324**	2,450,403
	3,070,866	3,149,440

18. SUBORDINATED LOANS

As at 31 December 2010, the Bank has subordinated borrowings of USD 300 million equivalent to **KD 84,180 thousand** (2009: KD 86,040 thousand). The borrowings comprise of three 10 year subordinated loans: USD 50 million due in June 2014, USD 100 million due in December 2014, and USD 150 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 offer rates.

19. OTHER LIABILITIES

	2010 KD 000's	2009 KD 000's
Interest payable	**17,850**	18,531
Deferred income	**3,485**	2,564
Provisions for non-cash facilities (refer movement below)	**9,920**	11,804
Fair value loss on credit default swaps (note 29)	**14,473**	28,916
Staff related provisions	**7,675**	6,586
Others	**26,715**	23,341
	80,118	91,742

		2010 KD 000's			2009 KD 000's	
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**7,469**	**4,335**	**11,804**	7,271	20,348	27,619
Charge/(write-back) to income statement (Note 5 and 6)	**(2,018)**	**134**	**(1,884)**	198	(16,013)	(15,815)
At 31 December	**5,451**	**4,469**	**9,920**	7,469	4,335	11,804

20. SHARE CAPITAL

	2010 KD 000's	2009 KD 000's
Authorised, issued and fully paid:		
2,507,702,366 (2009: 2,507,702,366) shares of KD 0.100 each	**250,770**	250,770

21. 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 since previously incurred losses have not yet been fully recovered.

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

b) General Reserve

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable. Transfer to general reserve will be made after recovering the previously incurred losses.

c) Share premium

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

The share premium, statutory and general reserves as of 31 January 2009 were utilised to offset accumulated losses of KD 235,585 thousand as of that date which was approved by the shareholders on 11 April 2009.

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 off.

22. TREASURY SHARES AND TREASURY SHARE RESERVE

	2010	2009
Number of treasury shares	**46,878,737**	52,453,737
Percentage of treasury shares	**1.87%**	2.09%
Cost of treasury shares (KD 000's)	**44,247**	49,631
Market value of treasury shares as at 31 December (KD 000's)	**26,721**	15,736

Movement in treasury shares was as follows:

	No. of shares	
	2010	2009
Balance as at 1 January	**52,453,737**	36,263,737
Purchases	**225,000**	16,190,000
Sales	**(5,800,000)**	-
Balance as at 31 December	**46,878,737**	52,453,737

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

23. DIRECTORS' REMUNERATION

Directors' remuneration of **KD 180 thousand** (2009: KD Nil) in accordance with local regulations and is subject to approval of the shareholders at the Annual General Meeting.

24. 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 statement of financial position are as follows:

	Number of Board Members or executive management members		Number of related parties			
	2010	2009	**2010**	2009	**2010 KD 000's**	2009 KD 000's
Board members						
Loans and advances	**1**	1	**7**	8	**160,448**	401,952
Provision for impairment on receivable from a related party	**-**	-	**-**	1	**-**	208,695
Deposits	**7**	1	**18**	4	**488,133**	647,061
Guarantees issued	**-**	-	**3**	5	**10,157**	14,561
Executive management						
Loans	**4**	5	**-**	-	**1,026**	1,385
Deposits	**13**	13	**-**	-	**977**	643
Guarantees issued	**2**	-	**-**	-	**1**	-

The loans issued to directors and key management personnel are repayable within 3 years and have interest rates of **2.5% to 6.5%** p.a. (2009: 3% to 7% p.a). Some of the loans advanced to directors and their related parties during the year are collateralised. The fair value of these collaterals as of 31 December 2010 was **KD 193,457 thousand** (2009: KD 148,853 thousand).

The transactions included in the income statement are as follows:

	2010 KD 000's	2009 KD 000's
Directors and key management personnel:		
Interest income earned	**7,542**	9,954
Interest expense on deposits	**10,033**	15,958
Key management compensation:		
Salaries and other short-term benefits	**2,595**	2,443
End of service/termination benefits	**83**	178

25. 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.

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 counter parties 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 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 Chief Risk Officer, 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 credit review 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 seven credit committees: the Board Credit Committee ("BCC"), the Executive Credit Committee ("ECC"), the Management Credit Committee ("MCC"), Business Banking Credit Committee ("BBCC"), the Retail Credit Committee ("RCC"), Remedial Credit Committee and the Classification and Provisions Committee ("CPC").

The Board of Directors has delegated all authority for credit decisions to the BCC within the Central Bank of Kuwait guidelines. The responsibilities of the BCC 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 ECC and in compliance with the credit policies of the Bank.

The ECC and MCC have the authority to approve, reject or modify credit applications submitted to it within its delegated authority levels. Applications that fall outside the delegated authority limits of the ECC are referred to the BCC and applications that fall outside the purview of the MCC are referred to the ECC.

Business Banking Credit Committee ("BBCC") has the responsibility for facilitating asset creation and monitoring exposure management upto the approved limit in Small and Medium Enterprise ("SME") segment. BBCC has the sole authority to approve, reject or modify business banking credit applications submitted to it upto the limit of its delegated authority. There is a well defined organisational structure and risk management mechanism for business banking which offers specific products to SME segment based on turnover and its priority for 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.

Remedial Credit Committee has been delegated powers to review, settle, restructure, reschedule, abandon recovery efforts and write-off debts upto the approved limits pertaining to customers under its supervision. Applications that fall outside the delegated authority limits of the Remedial Credit Committee are referred to the ECC.

Depending on the amount and risk profile of the client credit applications for corporate and international lending are reviewed by the BCC, ECC, MCC, BBCC and Remedial Credit Committee and typically include the following information: executive summary, customer profile and summary of limits and amounts outstanding; risk rating and credit memorandum prepared by the Bank's independent credit review unit; 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 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.

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 reviewed 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 MCC.

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:

	2010			2009		
	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)	**4,163,229**	**4,022,125**	**942,766**	4,093,188	4,170,494	961,681
Other Middle East	**183,088**	**116,623**	**346,605**	295,400	110,626	414,089
Europe	**50,585**	**4,028**	**83,044**	89,374	11,946	68,280
USA and Canada	**31,880**	**9,500**	**15,961**	42,472	5,565	8,061
Asia Pacific	**16,362**	**15,982**	**222,981**	19,059	19,022	218,357
Rest of world	**97,843**	**20,804**	**155**	150,123	18,405	198
	4,542,987	**4,189,062**	**1,611,512**	4,689,616	4,336,058	1,670,666
Industry sector:						
Personal	**760,641**	**2,399,270**	**-**	741,487	2,082,054	331
Financial	**706,579**	**249,904**	**330,419**	741,674	892,566	428,105
Trade and Commerce	**262,049**	**24,685**	**152,744**	252,661	25,321	84,531
Crude Oil and Gas	**20,445**	**5,238**	**14,452**	22,866	2,726	14,795
Construction	**251,916**	**31,637**	**524,019**	324,203	27,332	457,515
Government	**905,793**	**1,035,592**	**143,406**	919,035	1,014,512	216,761
Manufacturing	**329,549**	**14,159**	**28,643**	262,138	5,821	73,118
Real Estate	**910,686**	**5,801**	**84,984**	885,907	4,700	124,247
Others	**395,329**	**422,776**	**332,845**	539,645	281,026	271,263
	4,542,987	**4,189,062**	**1,611,512**	4,689,616	4,336,058	1,670,666

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk net of provision for the components of the statement of financial position, including positive fair value of 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.

BY CLASS OF FINANCIAL ASSETS	**Maximum exposure 2010 KD 000's**	Maximum exposure 2009 KD 000's
Cash and short term funds (excluding cash on hand)	**249,227**	391,942
Treasury bills and bonds	**521,463**	486,206
Central Bank of Kuwait bonds	**310,055**	272,487
Deposits with banks and other financial institutions	**111,210**	70,267
Loans and advances to banks	**21,780**	9,258
Loans and advances to customers:		
Corporate lending	**2,571,221**	2,662,685
Consumer lending	**610,156**	603,068
Investments available-for-sale	**92,218**	142,646
Other assets	**55,657**	51,057
Total	**4,542,987**	4,689,616
Contingent liabilities	**1,594,941**	1,669,060
Capital commitment	**1,571**	1,606
Commitments	**15,000**	-
Total	**1,611,512**	1,670,666
Total credit risk exposure	**6,154,499**	6,360,282

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 2010 is 18 % (2009: 21%).

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 has procedures 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 Risk rating software for rating its borrowers having audited financial statements. Clients having no financial statements continue to be rated using internally developed score-card models.

Under the Moody's Risk rating framework, all borrowers are rated on a descending order of credit quality. The 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 rate the borrowers.

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.

Based on the above ratings, the Bank has developed an Obligor Risk Rating (ORR), where the borrowers are rated on a scale from 1 to 10 in a descending order of credit quality. All performing assets are rated on a scale of 1-7 to determine a probability of default. Obligors to qualify for a rating between 1 to 3 must be validated by an approved external rating agency or be collateralized 100% by cash or by a bank guarantee from a bank rated between Aaa and A3 by Moody's or an approved external rating agency.

Obligors where a default has already occurred are ranked judgmentally as 8 (sub-standard), 9 (Doubtful) or as 10 (Bad Debt).

The Bank categorizes performing credit exposures with zero past dues under the following categories:

Credit Quality Grade (CQG)	**Obligor Risk Rating**
CQG – 1	1 to 4
CQG – 2	5+ to 5-
CQG – 3	6+ to 6-
CQG – 4	7

	Neither past due nor impaired				
2010	**CQG1 KD 000's**	**CQG2 KD 000's**	**CQG3 KD 000's**	**CQG4 KD 000's**	**Total KD 000's**
Loans and advances to banks	**5,601**	**2,105**	**-**	**14,074**	**21,780**
Loans and advances to customers:					
- Corporate lending	**65,402**	**552,036**	**1,076,846**	**277,088**	**1,971,372**
- Consumer lending	**569,491**	**-**	**-**	**-**	**569,491**
Effective interest rate adjustment (Note 5)	**(5,630)**	**-**	**-**	**-**	**(5,630)**
	634,864	**554,141**	**1,076,846**	**291,162**	**2,557,013**

	Neither past due nor impaired				
2009	CQG1 KD 000's	CQG2 KD 000's	CQG3 KD 000's	CQG4 KD 000's	Total KD 000's
Loans and advances to banks	-	82	2,151	-	2,233
Loans and advances to customers:					
- Corporate lending	77,932	457,478	813,042	214,688	1,563,140
- Consumer lending	562,126	-	-	-	562,126
Effective interest rate adjustment (Note 5)	(8,760)	-	-	-	(8,760)
	631,298	457,560	815,193	214,688	2,118,739

25. FINANCIAL INSTRUMENTS *(continued)*
A. CREDIT RISK *(continued)*

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

	2010			
	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	**171,367**	**17,499**	**1,479**	**190,345**
- Consumer lending	**32,297**	**9,775**	**4,345**	**46,417**
Effective interest rate adjustment (Note 5)	**(239)**	**(220)**	**(51)**	**(510)**
Total	**203,425**	**27,054**	**5,773**	**236,252**
Fair value of collateral	**459,387**	**7,471**	**4**	**466,862**

	2009			
	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 banks	7,025	-	-	7,025
Loans and advances to customers:				
- Corporate lending	449,335	16,196	8,400	473,931
- Consumer lending	34,180	11,019	3,916	49,115
Effective interest rate adjustment (Note 5)	(449)	(325)	(75)	(849)
Total	490,091	26,890	12,241	529,222
Fair value of collateral	431,270	11,669	18,159	461,098

Financial assets by class individually impaired

	2010		
	Gross exposure KD 000's	**Impairment provisions KD 000's**	**Fair value of collateral KD 000's**
Loans and advances to customers:			
- Corporate lending	**619,562**	**158,084**	**388,367**
- Consumer lending	**22,305**	**15,899**	**-**
Effective interest rate adjustment (Note 5)	**(17)**	**-**	**-**
	641,850	**173,983**	**388,367**

	2009		
	Gross exposure KD 000's	Impairment provisions KD 000's	Fair value of collateral KD 000's
Loans and advances to customers:			
- Corporate lending	1,107,398	450,108	602,353
- Consumer lending	41,235	33,766	541
Effective interest rate adjustment (Note 5)	(7)	-	-
	1,148,626	483,874	602,894

Contingent liabilities and commitments are 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. 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 27.

Derivative 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.

This amount is subject to credit risk 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 29.

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 statement of comprehensive income is from 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 statement of financial position date, in case of a change in basis points movements with all other variables held constant, the following will be the impact on income statement:

Currency	Movement in Basis points	**2010 KD 000's**	2009 KD 000's
KWD	+25	**3,097**	2,141
USD	+25	**(330)**	87
EUR	+25	**(10)**	(33)
GBP	+25	**8**	5

Currency	Movement in Basis points	**2010 KD 000's**	2009 KD 000's
KWD	-25	**(3,097)**	(2,794)
USD	-25	**330**	(87)
EUR	-25	**10**	33
GBP	-25	**(8)**	(5)

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.

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 statement of financial position date, in case of a change in currency movements with all other variables held constant, the Bank's profit and other comprehensive income would move as follows:

	2010			2009		
Currency	**Change in currency rate in %**	**Impact on income statement KD 000's**	**Impact on other comprehensive income KD 000's**	Change in currency rate in %	Impact on income statement KD 000's	Impact on other comprehensive income KD 000's
USD	**+5**	**(9,662)**	**3,353**	+5	(5,774)	5,427
EURO	**+5**	**(254)**	**262**	+5	(565)	573

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 rate. 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 manages 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 financial position, 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 maintains liquidity and funding contingency plans to cope with potential difficulties that may arise from local or regional market 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% 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 table below summarises the maturity profile of the assets and liabilities at the year end based on residual contractual repayment arrangements (assets and liabilities without a contractual maturity are based on management expectation):

At 31 December 2010

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	**280,193**	**-**	**-**	**-**	**-**	**-**	**280,193**
Treasury bills and bonds	**129,208**	**82,648**	**106,371**	**176,013**	**27,223**	**-**	**521,463**
Central Bank of Kuwait bonds	**165,762**	**99,357**	**44,936**	**-**	**-**	**-**	**310,055**
Deposits with banks and other financial institutions	**-**	**111,210**	**-**	**-**	**-**	**-**	**111,210**
Loans and advances to banks	**3,908**	**1,753**	**274**	**15,845**	**-**	**-**	**21,780**
Loans and advances to customers	**400,918**	**479,547**	**132,169**	**547,466**	**523,203**	**1,098,074**	**3,181,377**
Investments available-for-sale	**-**	**-**	**-**	**-**	**-**	**92,218**	**92,218**
Other assets	**55,657**	**-**	**-**	**-**	**-**	**-**	**55,657**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**25,824**	**25,824**
Total assets	**1,035,646**	**774,515**	**283,750**	**739,324**	**550,426**	**1,216,116**	**4,599,777**
Liabilities and equity:							
Due to banks	**47,679**	**19,642**	**-**	**-**	**-**	**-**	**67,321**
Deposits from financial Institutions	**238,468**	**165,461**	**107,038**	**375,610**	**-**	**-**	**886,577**
Customer deposits	**1,427,232**	**1,031,137**	**463,326**	**146,132**	**3,039**	**-**	**3,070,866**
Subordinated loans	**-**	**-**	**-**	**-**	**-**	**84,180**	**84,180**
Other liabilities	**67,261**	**6,544**	**2,912**	**3,079**	**322**	**-**	**80,118**
Equity	**-**	**-**	**-**	**-**	**-**	**410,715**	**410,715**
Total liabilities	**1,780,640**	**1,222,784**	**573,276**	**524,821**	**3,361**	**494,895**	**4,599,777**
Net liquidity gap	**(744,994)**	**(448,269)**	**(289,526)**	**214,503**	**547,065**	**721,221**	**-**

At 31 December 2009

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	421,350	-	-	-	-	-	421,350
Treasury bills and bonds	63,303	124,442	68,300	183,901	26,180	20,080	486,206
Central Bank of Kuwait bonds	132,761	99,820	39,906	-	-	-	272,487
Deposits with banks and other financial institutions	-	70,267	-	-	-	-	70,267
Loans and advances to banks	1,721	5,370	359	1,808	-	-	9,258
Loans and advances to customers	605,387	610,761	162,045	484,139	447,989	955,432	3,265,753
Investments available-for-sale	-	-	-	-	-	142,646	142,646
Other assets	51,057	-	-	-	-	-	51,057
Premises and equipment	-	-	-	-	-	24,887	24,887
Total assets	1,275,579	910,660	270,610	669,848	474,169	1,143,045	4,743,911
Liabilities and equity:							
Due to banks	31,081	58,793	-	-	-	-	89,874
Deposits from financial institutions	281,370	205,607	139,971	291,962	52	-	918,962
Customer deposits	1,671,449	855,812	456,333	165,715	131	-	3,149,440
Subordinated loans	-	-	-	-	-	86,040	86,040
Other liabilities	21,023	58,863	8,877	2,755	224	-	91,742
Equity	-	-	-	-	-	407,853	407,853
Total liabilities	2,004,923	1,179,075	605,181	460,432	407	493,893	4,743,911
Net liquidity gap	(729,344)	(268,415)	(334,571)	209,416	473,762	649,152	-

25. FINANCIAL INSTRUMENTS *(continued)*
D. LIQUIDITY RISK *(continued)*

The tables below summarise the maturity profile of the Bank's financial liabilities and contingent liabilities, commitments and non-derivative financial liabilities 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 2010

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	**47,693**	**19,674**	**-**	**-**	**-**	**67,367**
Deposits from financial institutions	**238,576**	**166,041**	**488,968**	**-**	**-**	**893,585**
Customer deposits	**1,427,797**	**1,034,686**	**615,668**	**3,114**	**-**	**3,081,265**
Subordinated loans	**-**	**393**	**1,575**	**48,793**	**42,827**	**93,588**
Other liabilities	**67,261**	**6,544**	**5,991**	**322**	**-**	**80,118**
Total undiscounted liabilities	**1,781,327**	**1,227,338**	**1,112,202**	**52,229**	**42,827**	**4,215,923**

At 31 December 2009

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
Due to banks	31,085	59,150	-	-	-	90,235
Deposits from financial institutions	283,587	208,218	441,862	54	-	933,721
Customer deposits	1,675,177	863,038	633,443	139	-	3,171,797
Subordinated loans	-	332	1,353	50,466	43,658	95,809
Other liabilities	21,023	58,863	11,632	224	-	91,742
Total undiscounted liabilities	2,010,872	1,189,601	1,088,290	50,883	43,658	4,383,304

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments:

	Less than 1 month KD 000's	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Over 5 years KD 000's**	**Total KD 000's**
At 31 December 2010						
Contingent liabilities	**146,769**	**245,867**	**401,047**	**359,534**	**27,487**	**1,180,704**
Capital commitment	**-**	**-**	**-**	**1,571**	**-**	**1,571**
Commitments	**-**	**-**	**-**	**15,000**	**-**	**15,000**
	146,769	**245,867**	**401,047**	**376,105**	**27,487**	**1,197,275**

	Less than 1 month KD 000's	1 to 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
At 31 December 2009						
Contingent liabilities	153,900	193,235	527,717	286,408	-	1,161,260
Capital commitment	-	-	1,606	-	-	1,606
	153,900	193,235	529,323	286,408	-	1,162,866

The table below shows the contractual expiry by maturity of the Bank's gross settled derivatives positions:

Derivatives	**Less than 1 month KD 000's**	**1 to 3 months KD 000's**	**3 to 12 months KD 000's**	**1 to 5 years KD 000's**	**Total KD 000's**
At 31 December 2010					
Gross settled derivatives	**13,979**	**-**	**-**	**-**	**13,979**
At 31 December 2009					
Gross settled derivatives	5,237	-	-	-	5,237

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.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair values of all financial instruments are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value and this applies to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

The methodologies and assumptions used to determine fair values of financial instruments are described in fair value section of Note 2: Significant Accounting Policies.

27. 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 statement of financial position, 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:

	2010 **KD 000's**	2009 KD 000's
Guarantees	**969,495**	941,928
Letters of credit	**211,209**	219,332
Capital Commitment	**1,571**	1,606
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	**-**	-
Original term to maturity of more than one year	**15,000**	-
	15,000	-
	1,197,275	1,162,866

As at the reporting date the Bank had undrawn commitments to extend overdraft facilities to customers amounting to **KD 82,376 thousand** (2009: KD 68,633 thousand). The contractual terms entitle the Bank to withdraw these facilities at any time.

28. SEGMENTAL ANALYSIS

a. By Business Unit

Commercial Banking	Acceptance of deposits from individuals, corporate and institutional customers and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities to individuals; and handling loans and other credit facilities of corporate and institutional customers.
Treasury & Investments	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 placements and acceptances with other banks. The proprietary investments of the Bank are managed by the investments unit.

Segmental information for the year ended 31 December

	Commercial Banking		Treasury & Investments		Total	
	2010 KD 000's	2009 KD 000's	**2010 KD 000's**	2009 KD 000's	**2010 KD 000's**	2009 KD 000's
Operating income	**116,601**	113,095	**38,420**	38,525	**155,021**	151,620
Segment result	**(20,793)**	(59,024)	**35,652**	35,933	**14,859**	(23,091)
Unallocated income					**27,135**	(20,950)
Unallocated expense					**(22,935)**	15,968
Operating profit/(loss)					**19,059**	(28,073)
Segment assets	**3,239,596**	3,312,858	**1,291,935**	1,363,547	**4,531,531**	4,676,405
Unallocated assets					**68,246**	67,506
Total Assets					**4,599,777**	4,743,911
Segment liabilities	**2,641,579**	2,332,056	**1,434,178**	1,866,121	**4,075,757**	4,198,177
Unallocated liabilities and equity					**524,020**	545,734
Total Liabilities and Equity					**4,599,777**	4,743,911
Depreciation					**2,551**	2,409
Impairment losses					**4,800**	5,624

b. Geographic segment information relating to locations of assets, liabilities and off balance sheet are given in Note 25A.

No revenue from transactions with a single external customer or counter party resulted to 10% or more of the Bank's total revenue in 2010 or 2009.

29. 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. All derivative contracts are fair valued based on observable market update.

At 31 December 2010

			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)						
Forward foreign exchange contracts	**-**	**-**	**13,979**	**13,979**	**-**	**-**
Credit default swaps	**-**	**(14,473)**	**380,650**	**8,418**	**65,941**	**306,291**
Structured Products (Note 15)	**10,688**	**-**	**11,224**	**-**	**-**	**11,224**
	10,688	**(14,473)**	**405,853**	**22,397**	**65,941**	**317,515**

At 31 December 2009

			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)						
Forward foreign exchange contracts	5	(4)	5,237	5,237	-	-
Credit default swaps	-	(28,916)	427,278	-	23,092	404,186
Structured Products (Note 15)	33,040	(19)	75,285	2,868	14,340	58,077
	33,045	(28,939)	507,800	8,105	37,432	462,263

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.

30. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

The disclosures relating to the Capital Adequacy Regulations issued by CBK as stipulated in its Circular No. 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.