ANNUAL REPORT 2009

بنك الخليج
GULF BANK

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

Review of 2009

It gives me pleasure to highlight the key results and milestones Gulf Bank has achieved over this past year, re-affirming its leading position in the Kuwaiti banking sector. I will also review the main issues the Bank addressed during the year, including the additional precautionary provisions, and the Bank's solid financial position.

Key Events in 2009

The global financial crisis brought drastic changes in policies and conditions, which have re-shaped the economic and financial trends in the world economy.

Despite the implications of this crisis for the local market, Gulf Bank posted strong operating performance during 2009, which was a direct result of the hard work of all our staff, as well as our conservative strategy which aims to focus the Bank's activities on what ultimately best suits the market's needs. Although this good performance was not translated into net profits for this difficult year, the Bank's ability to weather the post-crisis implications has become stronger.

Gulf Bank has built the foundations capable of meeting the challenges and opportunities ahead, which bodes well for the return of net profits to appropriate levels in the coming years. Despite those challenges, the Bank continued to grow its overall credit portfolio by granting new credit facilities and renewing existing credits, within the range of 10% of the total portfolio, which improved the general performance of the portfolio.

During 2009, aware of the economic conditions sweeping the globe, Gulf Bank adopted a new, conservative strategy. We set aside the Bank's entire operating profit of KD83m, together with additional amounts, as precautionary provisions against our credit portfolio. This led to a net loss of KD28m for 2009, which was carried forward to 2010.

In parallel, Gulf Bank continues to develop its human capital in order to raise professional standards and best practices, enabling us to serve customers better and reward our Shareholders with consistent good returns. The Bank has made tangible success in this regard. Through dedicated HR practices focused on supporting national manpower, including tailored training and career development programmes, Gulf Bank is committed to helping the Kuwaiti Youth achieve their career aspirations in the banking industry. As a result of this commitment, Gulf Bank posted one of the highest employment percentages of Kuwaiti nationals in Kuwait's private sector and was the first Kuwaiti bank to achieve this status. An evidence of the success of our initiative in this regard was that in November 2009, Gulf Bank was awarded the prestigious Localization Award by the GCC Council of Ministers of Labour and Social Affairs for the fifth consecutive year, in recognition of the Bank's excellence in this respect.

Despite the net negative results for 2009, we remain committed to maximizing Shareholders' returns in the coming years, and providing our customers with world-class standards in customer satisfaction and competitive value.

Strengthening the Executive Management

We believe that a work environment which is based on shared values and common goals is essential to our success. Our values are governed by our belief and commitment to excellence.

Seeking to realize this vision, Gulf Bank strengthened its executive management during 2009, by appointing its new Chief Executive Officer and Chief General Manager, Mr. Michel Accad; in addition to appointing well-known experts as heads of a number of critical departments in the Bank, including Finance, Risk Management, and Retail Banking. Their combined knowledge and experience in world-class banking, as well as their credible reputations, make them the best choice for Gulf Bank and its growth and success requirements.

Moving Forward

As earlier mentioned, Gulf Bank has built a solid foundation to meet the challenges and opportunities ahead. The main focus in the current stage is on strengthening our balance sheet and upgrading the quality of the Bank's assets, in an effort to immunize the Bank against potential risks and earning volatility.

We are committed to achieving appropriate rates of return for our Shareholders, in the coming years, and to providing our customers with world-class standards of customer satisfaction and competitive value. We will focus on our core banking business, and we will move forward with a customer-centric policy, to streamline our processes, saving sufficient time for our staff to focus on customers and their banking needs, and enabling the Bank to grow its credit portfolio and strengthen its general funding sources.

We look forward to seeing the anticipated positive results of executing the development plan projects recently approved by the State, as well as the economic reform acceleration programmes aimed at enhancing the activities of the various sectors of our national economy, through increasing productive investment opportunities available for local businesses and companies.

In Conclusion

Over the course of the year since the election of the new Board of Directors, a lot has been accomplished by the Bank's team. Nothing could have been done without the support and teamwork of a broad number of people.

First and foremost, I want to express my deepest appreciation to all parties who supported the Bank during the past period, with H.E. Sheikh Salem Abdulaziz Al-Sabah at the forefront, together with his excellent team at the Central Bank of Kuwait. Also I want to thank each and every customer for their loyalty and confidence in us through 2009. Finally, I would like to thank the Bank's management and staff for their diligent efforts towards developing Gulf Bank and growing its business.

I can assure all of our Shareholders and customers that their trust in the Bank is well-placed, and that there is a renewed commitment by Gulf Bank to maintaining its leading role in the Kuwaiti market, meeting its customers' needs and achieving appropriate returns for Shareholders.

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, May God's Grace Be Upon Him, H.H. the Crown Prince Sheikh Nawaf Al Ahmed Al Jaber Al Sabah, and H.H. the Prime Minister Sheikh Nasser Al Mohammed Al Ahmed Al Sabah and his government, for their continued support and prudent guidance to our national economy.

Ali Abdul Rahman Al Rashaid Al Bader
Chairman


BALEARIDES
INS. MINORCA
Citadella
Port de Maon
ARICUM
Tadoles
Montes

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

Seated from left to right:

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

Back Row left to right:

Abdullatif Al-Hamad - General Manager, Corporate Banking; **Saleem Sheikh** - Chief Risk Officer; **Carlos Ribeiro** - Chief Financial Officer; **Aly Shalaby** - General Manager, Retail Banking; **Surour Alsamerai** - General Manager, Human Resources; **Hatem Badr** - General Manager, Legal Department; **Khaled Al-Mutawa** - General Manager, International Banking and Acting General Manager Investment Banking.

Financial Review

Income Statement Analysis

(KD millions)	**2009**	2008
Net interest income	**89.6**	118.1
Other operating income	**41.0**	(100.7)
Operating income	**130.7**	17.4
Operating expenses	**(47.6)**	(42.7)
Operating profit before provisions	**83.1**	(25.3)
Provisions	**(111.1)**	(333.8)
Operating profit	**(28.1)**	(359.1)
Directors' emoluments	**-**	(0.0)
KFAS/ National labour support tax / zakat	**0.0**	(0.4)
Net profit	**(28.1)**	(359.5)

Gulf Bank reported an operating profit of KD83.1 million for 2009. On a normalized basis, the bank's operating profit amounted to KD106 million. The net provisioning requirements for the year of KD111.1 million on the credit portfolio resulted in a net loss of KD28.1 million (12 fils per share).

Net interest income was lower mainly due to the effective interest rate adjustments (ref note 5 to the financial statements) and interest suspended on non-performing loans. Subject to these adjustments, there was an increase in net interest margins.

Other operating income was higher by KD141.8 million. 2008 marked an unusual year for Gulf Bank and included one off losses on some structured derivative contracts.

The increases in operating expenses were mainly due to one-off consultancy charges and legal costs.

The net impact arising from the decline in the credit portfolio necessitated additional impairment charges of KD111.1 million.

Balance Sheet Analysis

Selected balance sheet data

(KD millions)	**31-Dec 2009**	31-Dec 2008
Cash & short term funds: balances with CBK	**160.3**	64.4
Loans and advances to banks	**9.3**	32.0
Loans and advances to customers	**3,265.8**	3,448.3
Deposits with banks and OFIs	**70.3**	413.9
Investment securities	**142.6**	156.1
Total assets	**4,743.9**	4,947.4
Due to CBK	**-**	80.0
Due to banks	**89.9**	91.5
Subordinated loans	**86.0**	82.8
Deposits from other financial institutions	**919.0**	658.5
Customer deposits	**3,149.4**	3,825.7
Total liabilities	**4,336.1**	4,909.5
Shareholders' funds	**407.9**	38.0
Total Liabilities and Equity	**4,743.9**	4,947.4

Total assets decreased by KD204 million or 4% to KD4.7 billion at 31st December 2009. 69% of the balance sheet was deployed in customer loans and advances at 31st December 2009, similar levels as in 2008.

Loans and advances to banks declined by KD22.7 million (71%) to KD9.3 million whilst Deposits with banks and other financial institutions ('OFIs') decreased by KD344 million (83%).

Consequent to an amendment in the regulatory loan deposit ratios in October 2008, and with loans at similar levels to 2008, the bank decreased its deposit portfolio in 2009.

The bank's total liabilities reduced by 12% from 4.9 billion to KD4.3 billion in 2009. The total liabilities mainly comprise of deposits from customers (73%) and banks and other OFI's (23%).

The Shareholder's funds increased by KD369.9 million as the Bank's Equity was increased by KD376 million through an issue of 1,253.8 million shares of 100 fils each at a premium of 200 fils per share in January 2009. The re-capitalization was necessitated to address the one-off losses incurred by the bank in 2008 on some structured derivative contracts, impairments to the credit portfolio and mark to market losses on the investment portfolio.

Capital Management and Allocation

Capital structure:

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

Capital Structure

Composition of capital	(KD millions)		
	31-Dec-09	31-Dec-08	**Variance**
Tier 1 capital			
Paid-up share capital	**250.8**	125.4	**125.4**
Reserves	**180.9**	165.8	**15.1**
Retained earnings	**(26.4)**	(234.0)	**207.6**
Less: treasury shares	**(49.6)**	(45.4)	**(4.2)**
Total qualifying tier 1 capital	**355.7**	11.8	**343.9**
Tier 2 capital			
Interim retained profits	-	-	-
Property revaluation reserve (45%)	**7.5**	7.0	**0.5**
Fair valuation reserve (45%)	**16.0**	4.8	**11.2**
General provisions (1.25% of credit RWAs)	**36.3**	43.8	**(7.5)**
Subordinated debt	**77.4**	82.8	**(5.4)**
Other deduction	-	(126.6)	**126.6**
Total qualifying tier 2 capital	**137.2**	11.8	**125.4**
Total eligible regulatory capital (tier 1 and tier 2)	**492.9**	23.6	**469.3**

In line with the resolution adopted by Shareholders at the EGM on 2 December 2008, the Bank's Equity was increased by KD376 million through an issue of 1,253.8 million shares of 100 fils each at a premium of 200 fils per share in January 2009. The re-capitalization was necessitated to address the one-off losses incurred by the Bank on some structured derivative contracts, impairments to the credit portfolio and mark to market losses on the investment portfolio. Note 32 to the financial statements explains this in further detail.

Post recapitalization in January 2009, the accumulated losses of KD235.6 million till January 2009 were fully offset against the balances in Share Premium Reserves (KD89.4 million), General Reserve (KD2.4 million) and Statutory Reserve (KD143.8 million).

The qualifying Tier 2 capital as at 31 December 2008 was restricted to KD11.8 million in line with regulatory requirements.

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 2009 and 31 December 2008.

Credit risk exposures	*(KD millions)*	
	31-Dec-09	31-Dec-08
Credit risk weighted assets	**2,907.1**	3,500.1
Less: excess general provisions	**(5.7)**	(37.9)
Net credit risk weighted assets	**2,901.4**	3,462.2
Market risk weighted assets	**12.8**	16.2
Operational risk weighted exposures	**178.7**	183.7
Total risk weighted exposures	**3,092.9**	3,662.1
Capital requirements		
Credit risk		
Cash items	**0.0**	0.0
Claims on sovereigns	**1.8**	1.7
Claims on public sector entities (PSEs)	**4.0**	9.6
Claims on banks	**17.4**	44.4
Claims on corporates	**133.5**	174.5
Regulatory retail exposures	**68.9**	72.8
Past due exposures	**45.5**	21.9
Other assets	**77.8**	95.1
Credit risk capital requirement	**348.9**	420.0
Less: excess general provision (12%)	**(0.7)**	(4.5)
Net credit risk capital requirement	**348.2**	**415.5**
Market risk		
Interest rate position risk	**1.4**	1.8
Foreign exchange risk	**0.1**	0.2
Capital requirement for market risk	**1.5**	1.9
Capital requirement for operational risk	**21.4**	22.0
Total capital requirement	**371.1**	439.4
Capital adequacy ratios (per cent)		
Tier 1 ratio	**11.5%**	0.3%
Total capital adequacy ratio	**15.9%**	0.6%

The total risk-weighted exposure as at 31 December 2009 was KD3,093 million, requiring a regulatory capital at 12%, of KD371 million.

Gulf Bank's regulatory capital as at 31 December 2009 was KD493 million, translating to a capital adequacy ratio of 15.9%.

Risk Management

Risk Management Control Overview:

All banking activities involve the 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 26 (A) to the financial statements explains credit risk in detail and also outlines the 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 26 (D) to the financial statements explains liquidity risk in detail and also outlines the 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 get 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 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 Exposure

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 26 (A) to the financial statements explains the 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).

Gross credit risk exposure

The summary of Gulf Bank's gross credit risk exposure (before credit risk mitigation) in 2009 and 2008 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 millions)

Gross exposure	**31-Dec-09**	31-Dec-08	**Growth**
Funded gross credit exposure	**4,762.7**	5,002.9	**(4.8)%**
Unfunded gross credit exposure	**1,649.7**	2,755.0	**(40.1)%**
Total gross credit exposure	**6,412.4**	7,757.9	**(17.3)%**

Funded gross credit exposure for 2009 is 74.3% (2008: 64.5%) 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 2009 and 31 December 2008 is detailed below:

Funded and Unfunded credit facilities (Average) as at 31 December 2009

	2009			2008		
(KD thousands)	**Funded**	**Unfunded**	**Total**	Funded	Unfunded	Total
Cash items	**24,240**	**-**	**24,240**	23,855	-	23,855
Claims on sovereigns	**771,393**	**220,082**	**991,475**	574,135	241,136	815,271
Claims on public sector entities (PSEs)	**10,627**	**175,156**	**185,783**	75,394	166,077	241,471
Claims on banks	**446,349**	**246,897**	**693,246**	836,519	217,447	1,053,966
Claims on corporates	**1,541,010**	**1,210,639**	**2,751,649**	1,666,259	1,910,828	3,577,087
Retail exposures	**635,809**	**36,769**	**672,578**	679,942	23,477	703,419
Past due exposures	**474,577**	**15,867**	**490,444**	65,245	2,584	67,829
Other assets	**1,014,028**	**203,928**	**1,217,956**	1,214,433	150,788	1,365,221
	4,918,033	**2,109,338**	**7,027,371**	5,135,782	2,712,337	7,848,119

Average funded gross credit risk exposure for 2009 is 70.0% (2008: 65.4%) 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 2008 to 31 December 2009 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 2009 and 31 December 2008 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 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 assets	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%

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

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

The majority of the Bank's credit exposure is in Kuwait which comprises KD5.13 billion (79.9% of total gross credit exposure) at 31 December 2009, compared with KD5.12 billion (66.0% of total gross credit exposure) at 31 December 2008.

Credit Risk Exposure *(continued)*

Geographical Distribution of Average Credit Risk Exposures

The average gross credit risk exposure for 2009 and 2008, broken down by geographical region and standard credit risk portfolio is shown below.

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%

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

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

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 2009 and 31 December 2008 is shown below.

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%

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

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

Credit Risk Exposure *(continued)*

Residual Maturity Distribution of Gross Credit Risk Exposures

The residual maturity of the gross credit risk exposure, broken down by standard credit risk portfolio, as at 31 December 2009 and 31 December 2008 is shown below.

Total gross credit risk exposure as at 31 December 2009 — **Residual maturity**

(KD thousands)	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Cash items	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 geographical region	28.8%	15.3%	6.6%	15.3%	9.8%	24.2%	100.0%

Total gross credit risk exposure as at 31 December 2008 — Residual maturity

(KD thousands)	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Cash items	28,094	-	-	-	-	-	28,094
Claims on sovereigns	94,776	52,929	108,627	217,992	75,332	184,489	734,145
Claims on public sector entities (PSEs)	-	-	-	13,490	63,611	150,332	227,433
Claims on banks	305,503	27,214	381,281	126,506	66,571	69,829	976,904
Claims on corporates	896,536	646,258	975,902	442,029	253,929	303,215	3,517,869
Regulatory retail exposures	44,201	15,673	14,406	15,903	32,190	561,423	683,796
Past due exposures	193,305	-	-	-	-	-	193,305
Other assets	242,795	193,599	263,466	270,720	185,945	239,785	1,396,310
	1,805,210	935,673	1,743,682	1,086,640	677,578	1,509,073	7,757,856
Percentage of gross exposure by geographical region	23.3%	12.1%	22.5%	14.0%	8.7%	19.4%	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 2009 and 31 December 2008 is shown below.

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

	Impaired loans (NPLs)		**Balance sheet provisions**			
(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%**

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

	Impaired loans (NPLs)		Balance sheet provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific provisions cover
Personal	9,183	39,138	29,968	11,981	41,949	76.6%
Financial	1,329	7,629	6,300	30,949	37,249	82.6%
Trade and commerce	2,100	3,377	1,279	5,241	6,520	37.9%
Crude oil and gas	-	394	394	167	561	100.0%
Construction	16,546	29,064	19,212	11,001	30,213	66.1%
Manufacturing	19,180	27,547	8,369	4,648	13,017	30.4%
Real estate	99,432	301,427	201,995	11,606	213,601	67.0%
Government	-	1,424	1,424	425	1,849	100.0%
Others	37,661	72,509	35,408	5,633	41,041	48.8%
Total	185,431	482,509	304,349	81,651	386,000	63.1%

Impaired Loans and Provisions *(continued)*

Non-performing loans ('NPLs') increased by KD666.1 million in 2009, from KD482.5 million at 31 December 2008 mainly due to the adverse impact of the global financial crisis. This has had an adverse impact on the asset quality and consequently necessitated higher provisioning.

The industry segment split of the provision charges and write-offs in 2009 is shown below.

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)**	
Others	**46,101**	**10,020**	**56,121**	
Total	**178,456**	**(39,614)**	**138,842**	**33**

Provision charges and write-offs during 2008 (by industry segment)

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

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 2009 and 31 December 2008 is shown below.

Impaired loans and provisions (by geographical region) as 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%**

Impaired loans and provisions (by geographical region) as at 31 december 2008

	Impaired loans (NPLs)		Balance sheet provisions			
(KD thousands)	Past due portion	Balance outstanding	Specific	General	Total	Specific provisions cover
Kuwait	185,431	469,938	291,778	77,148	368,926	62.1%
Other Middle East	-	11,128	11,128	3,206	14,334	100.0%
Western Europe	-	19	19	517	536	100.0%
USA & Canada	-	-	-	16	16	0.0%
Asia Pacific	-	-	-	99	99	0.0%
Rest of World	-	1,424	1,424	665	2,089	100.0%
Total	185,431	482,509	304,349	81,651	386,000	63.1%

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 2009 and 31 December 2008, broken down by standard credit risk portfolio, is shown below.

Gross credit risk exposure before CRM as at 31 december 2009

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded credit exposure	Unfunded credit after CCF	FX contracts 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**
Regulatory 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**

Gross credit risk exposure before CRM as at 31 december 2008

	Gross credit exposure			Credit exposure before CRM			
	Funded	Unfunded	Total	Funded credit exposure	Unfunded credit after CCF	FX contracts after CCF	Total before CRM
Cash items	28,094	-	28,094	28,094	-	-	28,094
Claims on sovereigns	515,926	218,219	734,145	515,926	218,219	93	734,238
Claims on PSEs	37,561	189,872	227,433	37,561	176,207	-	213,768
Claims on banks	735,338	241,566	976,904	735,338	136,004	627	871,969
Claims on corporates	1,722,234	1,795,635	3,517,869	1,722,234	754,680	295	2,477,209
Regulatory retail exposures	646,967	36,829	683,796	646,967	15,394	-	662,361
Past due exposures	185,439	7,866	193,305	185,439	3,875	-	189,314
Other assets	1,131,318	264,992	1,396,310	1,131,318	213,185	-	1,344,503
Total	5,002,877	2,754,979	7,757,856	5,002,877	1,517,564	1,015	6,521,456

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 2009 and 31 December 2008 and the resulting credit risk-weighted assets further divided into rated and unrated exposures are given below:

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

	Credit exposure/CRM				Risk-weighted assets		
	Exposure before CRM	CRM: Eligible collateral	CRM: 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**
Regulatory 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**

Credit risk exposure after CRM; risk-weighted assets (RWAs) as at 31 December 2008

	Credit exposure/CRM				Risk-weighted assets		
	Exposure before CRM	CRM: Eligible collateral	CRM: Eligible guarantees	Exposure after CRM	Rated	Unrated	Total
Cash items	28,094	-	-	28,094	-	-	-
Claims on sovereigns	734,238	-	-	734,238	14,349	-	14,349
Claims on PSEs	213,768	-	-	213,768	-	80,051	80,051
Claims on banks	871,969	781	-	871,188	135,046	235,135	370,181
Claims on corporates	2,477,209	992,776	29,995	1,454,438	-	1,454,438	1,454,438
Regulatory retail exposures	662,361	53,391	699	608,271	-	606,275	606,275
Past due exposures	189,314	-	-	189,314	-	182,510	182,510
Other assets	1,344,503	734,001	-	610,502	-	792,255	792,255
Total	6,521,456	1,780,949	30,694	4,709,813	149,395	3,350,664	3,500,059

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 the 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 2009 and 31 December 2008 are shown in the following table.

	(KD thousands)	
Market risk	**31 Dec 09**	31 Dec 08
Interest rate position risk	**1,406**	1,764
Foreign exchange risk	**134**	179
Total capital requirement for market risk	**1,540**	1,943
Market risk-weighted assets	**12,828**	16,185

The 31 December 2009 total market risk capital charge of KD1,540 thousand was equivalent to market risk-weighted assets of KD12.8 million. Market risk-weighted assets were KD3.4 million lower than December 2008.

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 is 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 2009 are shown in the following tables.

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**

Operational risk as at 31 December 2008

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

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 2009 total operational risk capital charge of KD21.5 million was equivalent to operational risk-weighted exposure of KD178.7 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 2009 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 2009 is also shown.

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**
Income statement details			
Income from disposal of investment securities	**-**	**10,885**	**10,885**

Information related to the licensed bank's equity position in the banking book as at 31 December 2008

(KD thousands)	Publicly traded	Privately traded	Total investment securities
Total fair value of investment securities	4,897	151,195	156,092
Unrealised gains in equity	3,156	7,463	10,619
Latent revaluation gains	-	-	-
Regulatory capital details			
Unrealised gains in Tier 2 capital (45%)	1,420	3,358	4,778
Income statement details			
Income from disposal of investment securities	4,358	(7,735)	(3,377)

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 26 (B) to the financial statements.


320
340
300
280
W
260
240
S·W
220
200
180
S
160
S·E
E
80
60
N·E

Financial Statements

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

We have audited the accompanying financial statements of Gulf Bank K.S.C. ('the Bank'), which comprise the statement of financial position as at 31 December 2009 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 notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Bank and the financial statements, together with the contents of the report of the 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 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 in CBK circular number 2/BS/184/2005 dated 21 December 2005, as amended, Commercial Companies Law of 1960, as amended, or of the articles of association have occurred during the year ended 31 December 2009 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 our audit, we have not become aware of any material violations of the provisions of Law no. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organization of banking business, and its related regulations, during the year ended 31 December 2009.

Waleed A. Al Osaimi
LICENCE NO.68 A
OF ERNST & YOUNG

Bader A. Al-Wazzan
LICENCE NO. 62 A
PRICEWATERHOUSECOOPERS

1 February 2010
Kuwait

Income Statement

Year ended 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
Interest income	3,5	**208,988**	332,564
Interest expense	4	**119,353**	214,416
Net interest income		**89,635**	118,148
Net fees and commissions	7	**25,571**	27,392
Net gains/(losses) from dealing in foreign currencies and derivatives (including fair value movements of credit default swaps)	8	**9,725**	(61,331)
Realised gains/(losses) from disposal of investments		**10,885**	(3,377)
Dividend income		**275**	1,999
Impairment loss on investments available-for-sale	14	**(5,624)**	(65,720)
Other income		**203**	305
OPERATING INCOME		**130,670**	17,416
Staff expenses		**26,054**	24,752
Occupancy costs		**2,466**	2,126
Depreciation		**2,409**	2,484
Other expenses		**16,671**	13,358
Operating expenses		**47,600**	42,720
OPERATING PROFIT / (LOSS) BEFORE PROVISIONS		**83,070**	(25,304)
Charge (release) of provisions			
- Specific	6	**148,656**	327,349
- General	5,13,19	**(39,614)**	6,415
Loans written off	5	**2,101**	-
		111,143	333,764
OPERATING LOSS		**(28,073)**	(359,068)
Directors' remuneration	23	**-**	9
National Labour Support Tax		**-**	439
LOSS FOR THE YEAR		**(28,073)**	(359,516)
LOSS PER SHARE			
BASIC AND DILUTED LOSS PER SHARE (FILS)	9	**(12)**	(293)

The attached notes 1 to 32 form part of these financial statements.

Statement of Comprehensive Income

Year ended 31 December 2009

	2009 KD 000's	2008 KD 000's
Loss for the year	**(28,073)**	(359,516)
Other comprehensive income (expense)		
Net unrealised gains/(losses) on investments available-for-sale	**31,564**	(66,310)
Net realised (gains)/losses on disposal of/ impairment losses on investments available-for-sale recycled	**(6,666)**	68,062
Revaluation of premises and equipment	**1,111**	369
Other comprehensive income for the year	**26,009**	2,121
Total comprehensive loss for the year	**(2,064)**	(357,395)

The attached notes 1 to 32 form part of these financial statements.

Statement of Financial Position

As at 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
ASSETS			
Cash and short term funds	10	**421,350**	381,921
Treasury bills and bonds	11	**486,206**	426,597
Central bank of kuwait bonds	12	**272,487**	24,983
Deposits with banks and other financial institutions		**70,267**	413,926
Loans and advances to banks	13	**9,258**	31,973
Loans and advances to customers	13	**3,265,753**	3,448,322
Investments available-for-sale	14	**142,646**	156,092
Other assets	15	**51,057**	39,968
Premises and equipment		**24,887**	23,665
TOTAL ASSETS		**4,743,911**	4,947,447
LIABILITIES AND EQUITY			
LIABILITIES			
Due to central bank of kuwait	32	**-**	80,000
Due to banks	16	**89,874**	91,509
Deposits from financial institutions	16	**918,962**	658,508
Customer deposits	17	**3,149,440**	3,825,721
Subordinated loans	18	**86,040**	82,785
Other liabilities	19	**91,742**	170,936
Total liabilities		**4,336,058**	4,909,459
EQUITY			
Share capital	20	**250,770**	125,385
Statutory reserve	21	**-**	89,438
General reserve	21	**-**	2,356
Share premium	21	**153,024**	46,044
Property revaluation reserve	21	**16,639**	15,528
Treasury share reserve	22	**27,979**	27,979
Fair valuation reserve		**35,517**	10,619
Accumulated deficit		**(26,445)**	(233,957)
		457,484	83,392
Treasury shares	22	**(49,631)**	(45,404)
		407,853	37,988
TOTAL LIABILITIES AND EQUITY		**4,743,911**	4,947,447

Ali Al-Rashaid Al-Bader

(Chairman)

Michel Accad

(Chief General Manager & Chief Executive Officer)

The attached notes 1 to 32 form part of these financial statements.

Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 KD 000's	2008 KD 000's
OPERATING ACTIVITIES			
Loss for the year		**(28,073)**	(359,516)
Adjustments:			
Effective interest rate adjustment	5	**9,907**	-
Net (gains)/losses from dealing in foreign currencies and derivatives		**(31,988)**	59,190
Realised (gains)/losses from disposal of investments available-for-sale		**(10,885)**	3,377
Dividend income		**(275)**	(1,999)
Impairment loss on investments available-for-sale		**5,624**	65,720
Depreciation		**2,409**	2,484
Provisions		**109,042**	333,764
Loans written off		**2,101**	-
OPERATING PROFIT BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**57,862**	103,020
(Increase) decrease in operating assets:			
Treasury bonds		**(59,609)**	(13,690)
Central bank of kuwait bonds		**(247,504)**	150,942
Deposits with banks and other financial institutions		**343,659**	(100,185)
Loans and advances to banks		**22,715**	6,020
Loans and advances to customers		**15,871**	(450,511)
Other assets		**18,744**	(72,942)
(Decrease) increase in operating liabilities:			
Due to banks		**(1,635)**	(210,137)
Deposits from financial institutions		**260,454**	(215,957)
Customer deposits		**(676,281)**	634,392
Floating rate notes		**-**	(54,600)
Subordinated loans		**3,255**	885
Other liabilities		**(31,391)**	16,729
Net cash used in operating activities		**(293,860)**	(206,034)
INVESTING ACTIVITIES			
Purchase of investments available-for-sale		**(63)**	(132,899)
Proceeds from sale of investments available-for-sale		**43,668**	152,341
Purchase of premises and equipment		**(2,520)**	(2,511)
Dividends received		**275**	1,999
Net cash from investing activities		**41,360**	18,930
FINANCING ACTIVITIES			
Due to central bank of kuwait		**(80,000)**	80,000
Dividends paid		**-**	(69,820)
Rights issue	20	**376,156**	-
Purchase of treasury shares		**(4,927)**	(25,661)
Sale of treasury shares		**-**	240
Proceeds from sale of treasury shares rights entitlement		**700**	-
Net cash from (used in) financing activities		**291,929**	(15,241)
NET INCREASE (DECREASE) IN CASH AND SHORT TERM FUNDS		**39,429**	(202,345)
CASH AND SHORT TERM FUNDS AT 1 JANUARY		**381,921**	584,266
CASH AND SHORT TERM FUNDS AT 31 DECEMBER	10	**421,350**	381,921

The attached notes 1 to 32 form part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2009

			RESERVES										
	Share Capital KD 000's	Proposed Bonus Shares 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)/ Retained Earnings KD 000's	Subtotal Reserves KD 000's	Treasury Shares KD 000's	Proposed Dividend KD 000's	Total KD 000's
At 1 January 2008	109,030	16,355	89,483	2,356	46,044	15,159	27,928	8,867	125,559	315,351	(19,932)	69,820	490,624
Loss for the year	-	-	-	-	-	-	-	-	(359,516)	(359,516)	-	-	(359,516)
Other comprehensive income for the year	-	-	-	-	-	369	-	1,752	-	2,121	-	-	2,121
Total comprehensive income/(expense) for the year	-	-	-	-	-	369	-	1,752	(359,516)	(357,395)	-	-	(357,395)
Issue of capital	16,355	(16,355)	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	(25,661)	-	(25,661)
Sale of treasury shares	-	-	-	-	-	-	-	-	-	-	189	-	189
Profit on sale of treasury shares	-	-	-	-	-	-	51	-	-	51	-	-	51
Dividend paid	-	-	-	-	-	-	-	-	-	-	-	(69,820)	(69,820)
At 31 December 2008	125,385	-	89,438	2,356	46,044	15,528	27,979	10,619	(233,957)	(41,993)	(45,404)	-	37,988
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/(expense) for the year	**-**	**-**	**-**	**-**	**-**	**1,111**	**-**	**24,898**	**(28,073)**	**(2,064)**	**-**	**-**	**(2,064)**
Rights issue (note 20)	**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**

The attached notes 1 to 32 form part of these financial statements.

Notes to the Financial Statements

1. INCORPORATION AND REGISTRATION

Gulf Bank K.S.C. (the Bank) is a public shareholding company incorporated in Kuwait on 29 October 1960 and is registered as a bank with the Central Bank of Kuwait. Its registered office is at Mubarak Al Kabir Street, PO Box 3200, 13032 Safat, Kuwait. The financial statements for the year ended 31 December 2009 have been approved for issue by the Board of Directors on 1 February 2010. The Annual General Assembly of the Shareholder 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", all 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 for the adoption of new/amendments to IAS 1, IFRS 7 and IFRS 8.

During the year, the Bank has adopted the following standards effective for annual periods beginning on or after 1 January 2009.

IAS 1 'Presentation of Financial Statements' (Revised):

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present two linked statements. Comparative information has been re-presented so that it also conforms with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

Amendments to IFRS 7 'Improving Disclosures about Financial Instruments':

Amendments to IFRS 7, issued in March 2009, require enhanced disclosure about fair value measurements and liquidity risk of derivatives. In particular, the amendment requires disclosures of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendments results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Bank.

IFRS 8 'Operating segments':

The standard requires disclosure of information about the Bank's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Bank. Adoption of this standard did not have any effect on the financial position or performance of the Bank. The Bank determined that the operating segments were the same as the business segments previously identified under IAS 14 'Segment reporting'

The following International Accounting Standard Board (IASB) standards have been issued but is not yet effective and have not been early adopted by the Bank:

IFRS 3 (Revised 2008) Business Combinations and IAS 27 (Revised 2008) Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, for future business combinations, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary that does not result in loss of control is accounted for as an equity transaction.

IFRS 9 'Financial Instruments' – (Effective from 1 January 2013):

The standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2013. IFRS 9 improves the ability of the users of the financial statements to assess the amount, timing and uncertainty of future cash flows of the entity by replacing the many financial instrument classification categories and associated impairment methods.

IAS 24 (Revised) "Related party disclosures"

The revised standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

The application of the IFRS will result in amendments and additional disclosures relating to financial instruments and associated risks. The application of IAS 24 (revised) is not expected to have a material impact on the financial statements of the Bank.

b. Financial instruments

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

Classification

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

Financial assets 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 it is managed and its 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 difference in the irrespective carrying amount is recognised in the income statement.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*
b. Financial instruments *(continued)*

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

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

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 values of investments in mutual funds, unit trusts or similar investment vehicles are based on the last published bid price.

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

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

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

Impairment and uncollectibility of financial assets

An assessment is made at each 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, any impairment loss is recognised in the income statement.

Impairment is determined as follows:

- 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;
- 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 equity.

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

In March 2007, the CBK issued a circular amending the basis of making minimum general provisions on facilities changing the rate from 2% to 1% for 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. The general provision as at 1 January 2007 in excess of the present 1% for cash facilities and 0.5% for non-cash facilities would be retained as general provision until further directive from the Central Bank of Kuwait.

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

Offsetting

Financial assets and financial liabilities are offset and the net amounts reported in the 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 are 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 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. Treasury shares

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

g. Revenue recognition

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

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

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

h. Fiduciary assets

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

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.

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

j. 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 one month.

k. Significant accounting judgements, estimates

Judgements

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

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

Estimation uncertainty

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

(Impairment losses on loans and advances and investment in debt instruments)

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

Valuation of unquoted financial instruments

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

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

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

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

l. 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

	2009 KD 000's	2008 KD 000's
Treasury bonds, Central Bank of Kuwait bonds, and other investments	**13,296**	19,609
Placements with banks	**8,522**	24,960
Loans and advances to banks and customers (refer note 5)	**187,170**	287,995
	208,988	332,564

4. INTEREST EXPENSE

	2009 KD 000's	2008 KD 000's
Call accounts	**2,778**	4,887
Savings accounts	**1,504**	2,146
Time deposits	**111,958**	192,385
Bank borrowings	**3,113**	14,998
	119,353	214,416

5. EFFECTIVE INTEREST RATE ADJUSTMENT AND LOANS WRITTEN OFF

An amount of **KD9,907 thousand** has been charged to the income statement in the last quarter of the year. The charge represents an adjustment to a portfolio of loans that have had their terms modified in accordance with Central Bank of Kuwait - 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.

Also an amount of **KD2,101 thousand** has been charged to the income statement in the last quarter of the year. The charge represents 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 Central Bank of Kuwait – Circular No. No.2/105 dated 23 April 2008 and CBK letter No:2/105/3269 dated 10 March 2009.

During the last quarter of the year, the Bank released an equivalent amount of **KD12,008 thousand** to the income statement from the surplus general provision.

6. SPECIFIC PROVISIONS

		2009 KD 000's	2008 KD 000's
Loan receivables and advances to customers	– Cash	**178,291**	63,244
	– Non-cash	**198**	7,198
Provision for losses on receivable from a related party (Note 25)		**-**	200,800
(Release)/provision against fair value of open structured derivative transactions with certain customers (Note 8 and 15)		**(29,833)**	56,107
		148,656	327,349

7. NET FEES AND COMMISSIONS

	2009 KD 000's	2008 KD 000's
Total fees and commission income	**28,945**	30,943
Total fees and commission expense	**(3,374)**	(3,551)
	25,571	27,392

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

	2009 KD 000's	2008 KD 000's
Income from structured derivative transactions	**6,520**	5,298
Realised fair value gain on structured derivative transactions with a customer (Note 32)	**-**	200,800
Unrealised fair value (losses)/gains on structured derivative transactions with customers (Note 32)	**(29,833)**	56,107
Realised losses from structured derivative transactions on behalf of customers	**-**	(267,934)
Unrealised fair value gains (losses) on credit default swaps	**31,988**	(59,190)
Others	**1,050**	3,588
	9,725	(61,331)

9. BASIC/DILUTED LOSS PER SHARE

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

	2009 KD 000's	2008 KD 000's
Loss for the year	**(28,073)**	(359,516)
	Shares	Shares
Weighted average number of Bank's issued and paid up shares	**2,421,822,148**	1,253,851,183
Less: weighted average number of treasury shares	**(41,159,216)**	(28,849,427)
	2,380,662,932	1,225,001,756
	Fils	Fils
Basic/diluted loss per share	**(12)**	(293)

The loss per share for the year ended 31 December 2009 and 31 December 2008 has not been adjusted to give effect to the rights issue due to the non-availability of the market price of the Bank's shares on the rights issue date (Note 22).

10. CASH AND SHORT TERM FUNDS

	2009 KD 000's	2008 KD 000's
Balances with the Central Bank of Kuwait	**160,342**	64,388
Cash on hand and in current accounts with other banks	**109,588**	48,666
Deposits with banks and other financial institutions		
maturing within one month	**151,420**	268,867
	421,350	381,921

11. TREASURY BILLS AND BONDS

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

	2009 KD 000's	2008 KD 000's
Maturing within one year	**439,946**	375,337
Maturing after one year	**46,260**	51,260
	486,206	426,597

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.

	2009 KD 000's	2008 KD 000's
Central Bank of Kuwait Bonds	**272,487**	24,983

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 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 (refer note below)	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

At 31 December 2008

Loans and advances to customers	Kuwait KD 000's	Other Middle East KD 000's	Western Europe KD 000's	Asia Pacific KD 000's	Rest of World KD 000's	Total KD 000's
Personal	774,833	-	-	-	-	774,833
Financial	459,467	5,950	20	-	-	465,437
Trade and commerce	254,827	-	-	-	-	254,827
Crude oil and gas	6,429	394	-	-	-	6,823
Construction	344,579	45,824	-	5,215	-	395,618
Government	-	13,490	-	-	1,424	14,914
Manufacturing	292,366	20,363	238	-	-	312,967
Real estate (refer note below)	1,065,324	-	-	-	-	1,065,324
Others	368,172	72,714	24,075	-	50,999	515,960
	3,565,997	158,735	24,333	5,215	52,423	3,806,703
Less: Provision for impairment						(358,381)
						3,448,322
Loans and advances to banks	4,767	10,195	17,011	-	-	31,973

13. LOANS AND ADVANCES TO BANKS AND CUSTOMERS *(continued)*

The category 'Real Estate' includes **KD208,695 thousand** (2008: KD200,800 thousand) (including foreign exchange translation differences) receivable from a related party customer from structured derivative transactions. The Bank is in the process of initiating legal proceedings and pending a final outcome for its recovery, an equivalent credit risk provision has been made against this amount.

Movement in provisions for impairment

	2009 KD 000's			2008 KD 000's		
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**297,078**	**61,303**	**358,381**	32,567	54,362	86,929
Exchange adjustments	**7,775**	**-**	**7,775**	28	-	28
Recoveries	**356**	**-**	**356**	500	-	500
Amounts written off	**(33)**	**-**	**(33)**	(215)	-	(215)
Amount provided for pre invasion debts not purchased by CBK (Note 24)	**407**	**-**	**407**	154	-	154
Charge/write-off to income statement (note 5 and 6)	**178,291**	**(23,601)**	**154,690**	264,044	6,941	270,985
At 31 December	**483,874**	**37,702**	**521,576**	297,078	61,303	358,381

The specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, 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), has been made. During the year, the Bank has released an amount of **KD7,353 thousand** (2008: KD19,000 thousand) to the income statement from the surplus general provision, based on Central Bank of Kuwait's approval.

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

	2009 KD 000's			2008 KD 000's		
	Corporate lending	**Consumer lending**	**Total**	Corporate lending	Consumer lending	Total
At 1 January	**322,244**	**36,137**	**358,381**	57,344	29,585	86,929
Exchange adjustments	**7,775**	**-**	**7,775**	28	-	28
Recoveries	**-**	**356**	**356**	-	500	500
Amounts written off	**-**	**(33)**	**(33)**	-	(215)	(215)
Amount provided for pre invasion debts not purchased by CBK (Note 24)	**407**	**-**	**407**	154	-	154
Charge/write-off to income statement (note 6)	**151,358**	**3,332**	**154,690**	264,718	6,267	270,985
At 31 December	**481,784**	**39,792**	**521,576**	322,244	36,137	358,381
Specific provision	**450,108**	**33,766**	**483,874**	267,118	29,960	297,078
General provision	**31,676**	**6,026**	**37,702**	55,126	6,177	61,303
	481,784	**39,792**	**521,576**	322,244	36,137	358,381

The provision released for the year on non-cash facilities is **KD15,815 thousand** (2008: charge KD6,672 thousand). The available provision on non-cash facilities of **KD11,804 thousand** (2008: KD27,619 thousand) is included in other liabilities (Note 19).

As at 31 December 2009, non-performing loans and advances amounted to **KD1,148,626 thousand** (2008: KD482,509 thousand) split between facilities granted pre-invasion and post-liberation as follows:

	2009		2008	
	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**	12,665	12,665
Post-liberation	**1,135,554**	**470,802**	469,844	284,413
	1,148,626	**483,874**	482,509	297,078

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

14. INVESTMENTS AVAILABLE-FOR-SALE

	2009 KD 000's	2008 KD 000's
Equity securities		
Quoted	**10,718**	4,897
Unquoted	**131,928**	151,195
	142,646	156,092

Quoted securities are traded in active markets. Fair values amounting to **KD110,152 thousand** (2008: KD139,314 thousand) of the unquoted securities are based on market observable data.

During the year, the Bank recognised a gain of **KD31,564 thousand** (2008: loss of KD66,310 thousand) in statement of comprehensive income as the net unrealised (loss)/gain arising from changes in fair value of investment securities and re-cycled a gain of **KD6,666 thousand** (2008: (loss of KD7,687 thousand) to the income statement arising from the disposal of "investments available-for-sale".

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are certain investments where this estimation cannot be reliably determined, and as a result investments with a carrying amount of **KD21,776 thousand** (2008: KD11,881 thousand) are carried at cost.

15. OTHER ASSETS

	2009 KD 000's	2008 KD 000's
Accrued interest receivable	**34,139**	32,831
Sundry debtors and others	**16,918**	7,137
	51,057	39,968

Sundry debtors and others include KD33,010 thousand (2008: KD62,717 thousand) (including foreign exchange translation differences) being the fair value of open structured derivative transactions with certain customers which are not yet due against which the Bank has made an equivalent credit risk provision.

16. DUE TO BANKS AND DEPOSITS FROM FINANCIAL INSTITUTIONS

	2009 KD 000's	2008 KD 000's
Due to banks		
Current accounts and demand deposits	**10,099**	74,480
Time deposits	**79,775**	17,029
	89,874	91,509
Deposits from financial institutions		
Current accounts and demand deposits	**51,625**	80,822
Time deposits	**867,337**	577,686
	918,962	658,508

17. CUSTOMER DEPOSITS

	2009 KD 000's	2008 KD 000's
Current accounts	**473,010**	354,482
Savings accounts	**226,027**	174,250
Time deposits	**2,450,403**	3,296,989
	3,149,440	3,825,721

18. SUBORDINATED LOANS

As at 31 December 2009, the Bank has subordinated borrowings of USD 300 million equivalent to **KD86,040** thousand (2008: KD82,785 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 offered rates. Subordinated loan covenants include a requirement to maintain a minimum BIS Capital adequacy ratio of 12%.

19. OTHER LIABILITIES

	2009 KD 000's	2008 KD 000's
Interest payable	**18,531**	51,936
Deferred income	**2,564**	4,377
Provisions for non-cash facilities (refer movement below)	**11,804**	27,619
Fair value loss on credit default swaps	**28,916**	60,839
Staff related provisions	**6,586**	5,576
Other	**23,341**	20,589
	91,742	170,936

		2009 KD 000's			2008 KD 000's	
	Specific	**General**	**Total**	Specific	General	Total
At 1 January	**7,271**	**20,348**	**27,619**	73	20,874	20,947
Charge/write-off to income statement (note 5, 6 and 13)	**198**	**(16,013)**	**(15,815)**	7,198	(526)	6,672
At 31 December	**7,469**	**4,335**	**11,804**	7,271	20,348	27,619

20. SHARE CAPITAL

	2009 KD 000's	2008 KD 000's
Authorised 2,507,702,366 (2008: 2,507,702,366) shares of KD 0.100 each	**250,770**	250,770
Issued and fully paid: 2,507,702,366 (2008: 1,253,851,183) shares of KD 0.100 each	**250,770**	125,385

20. SHARE CAPITAL *(continued)*

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

During the subscription period in January 2009, 68% of the rights issue was subscribed to by the existing Shareholders and in line with the resolutions adopted by Shareholders at the above extraordinary general meeting, Kuwait Investment Authority took the unsubscribed shares.

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 due to losses incurred during the year.

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. No transfer has been made to general reserve due to losses incurred during the year.

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 of.

22. TREASURY SHARES AND TREASURY SHARE RESERVE

	2009	2008
Number of treasury shares	**52,453,737**	36,263,737
Percentage of treasury shares	**2.09%**	2.89%
Cost of treasury shares (KD 000's)	**49,631**	45,404
Market value of treasury shares (KD 000's)	**15,736**	-

It is not possible to disclose the market value of the treasury shares as of 31 December 2008, as the Kuwait Stock Exchange had suspended the trading in the Bank's share with effect from 26 October 2008. The Bank's shares resumed trading on 14 April 2009.

Movement in treasury shares was as follows:

	No. of shares	
	2009	2008
Balance as at 1 January	**36,263,737**	16,157,598
Purchases	**16,190,000**	17,832,500
Bonus issue	**-**	2,423,639
Sales	**-**	(150,000)
Balance as at 31 December	**52,453,737**	36,263,737

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

23. DIRECTORS' REMUNERATION

Directors' remuneration of **KD Nil** (2008: KD9 thousand) is within the amount permissible under local regulations and is subject to approval of the Shareholders at the Annual General Meeting.

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

As at 31 December 2009, provision to be ceded to the Central Bank of Kuwait is **KD Nil** (2008: KD Nil). The identification of provisions no longer required was made in the same manner as adopted at the end of 2007 and in accordance with Central Bank of Kuwait instructions. The Bank has provided **KD407 thousand** (2008: KD154 thousand) for the shortfall of provision on pre-invasion debts not purchased by the Central Bank of Kuwait.

25. 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			
	2009	2008	**2009**	2008	**2009 KD 000's**	2008 KD 000's
Board members						
Loan receivables and advances	**1**	4	**8**	9	**401,952**	119,086
Provision for losses on receivable from a related party	**-**	-	**1**	1	**208,695**	200,800
Deposits	**1**	5	**4**	-	**647,061**	7,792
Guarantees issued	**-**	1	**5**	6	**14,561**	19,282
Investment securities – equity	**-**	2	**-**	-	**-**	6,300
Executive management						
Loans	**5**	8	**-**	-	**1,385**	3,297
Deposits	**13**	12	**-**	-	**643**	556
Guarantees issued	**-**	2	**-**	-	**-**	2

The loans issued to directors and key management personnel are repayable within 3 years and have interest rates of **3% to 7%** p.a. (2008: 5.75% to 7.75% p.a.). Some of the loans advanced to directors during the year are collateralised. The fair value of these collaterals as of 31 December 2009 was **KD148,853 thousand** (2008: KD117,190 thousand).

The transactions included in the income statement are as follows:

	2009 KD 000's	2008 KD 000's
Directors and key management personnel:		
Interest income earned	**9,954**	15,958
Interest expense on deposits	**15,958**	222
Impairment loss on investments available-for-sale	**-**	3,150
Specific provision on receivable from a related party	**-**	200,800
Key management compensation:		
Salaries and other short-term benefits	**2,443**	1,943
End of service/termination benefits	**178**	92

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

26. Financial Instruments *(continued)*

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 five credit committees: the Board Credit Committee ('BCC'), the Executive Credit Committee ('ECC'), the Management Sub-Committee ('MSC'), the Retail Credit Committee ('RCC') and the Classification and Provisions Committee ('CPC').

The Board of Directors has delegated all authority for credit decisions to the 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 MSC has 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 MSC are referred to the ECC.

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

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

The 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 MSC.

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

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

	2009			2008		
	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)	**4,093,188**	**4,170,494**	**1,028,449**	3,807,957	4,000,657	1,309,413
Other Middle East	**295,400**	**110,626**	**414,089**	769,327	630,347	1,062,572
Europe	**89,374**	**11,946**	**68,280**	134,973	26,882	104,796
USA and Canada	**42,472**	**5,565**	**8,061**	8,452	121,987	130,248
Asia and Pacific	**19,059**	**19,022**	**220,222**	8,025	116,480	288,754
Rest of world	**150,123**	**18,405**	**198**	166,954	13,106	3,536
	4,689,616	**4,336,058**	**1,739,299**	4,895,688	4,909,459	2,899,319
Industry sector:						
Personal	**741,487**	**2,082,054**	**623**	737,610	1,993,343	29,649
Financial	**741,674**	**892,566**	**439,152**	1,170,440	886,317	506,877
Trade and Commerce	**252,661**	**25,321**	**106,401**	246,660	23,997	291,328
Crude Oil and Gas	**22,866**	**2,726**	**15,543**	6,365	190,557	6,369
Construction	**324,203**	**27,332**	**467,810**	379,147	15,831	560,862
Government	**919,035**	**1,014,512**	**-**	529,459	1,030,199	218,219
Other	**539,645**	**281,026**	**495,601**	470,332	236,739	921,827
Manufacturing	**262,138**	**5,821**	**77,331**	299,763	527,248	131,035
Real Estate	**885,907**	**4,700**	**136,838**	1,055,912	5,228	233,153
	4,689,616	**4,336,058**	**1,739,299**	4,895,688	4,909,459	2,899,319

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	**Gross maximum exposure 2009 KD 000's**	Gross maximum exposure 2008 KD 000's
Cash and short term funds (excluding cash on hand)	**391,942**	353,827
Treasury bonds	**486,206**	426,597
Central Bank of Kuwait bonds	**272,487**	24,983
Deposits with banks and other financial institutions	**70,267**	413,926
Loans and advances to banks	**9,258**	31,973
Loans and advances to customers:		
Corporate lending	**2,662,685**	2,814,368
Consumer lending	**603,068**	633,954
Investments available-for-sale	**142,646**	156,092
Other assets	**51,057**	39,968
Total	**4,689,616**	4,895,688
Contingent liabilities	**1,669,060**	2,777,463
Capital commitment	**1,606**	-
Commitments	**68,633**	121,856
Total	**1,739,299**	2,899,319
Total credit risk exposure	**6,428,915**	7,795,007

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 2009 is 21% (2008: 27%).

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's and either transfer credit balances to cover any outstanding borrowings or freeze the credit balances until the customer settles their outstanding obligations to the Bank.

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

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

Internal credit quality rating:

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

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

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

The Bank categorizes performing credit exposures into the following:

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

	Neither past due nor impaired					
2009	**CQG1 KD 000's**	**CQG2 KD 000's**	**CQG3 KD 000's**	**CQG4 KD 000's**	**CQG5 KD 000's**	**Total KD 000's**
Loans and advances to banks	**-**	**82**	**2,151**	**-**	**-**	**2,233**
Loans and advances:						
- Corporate lending	**64,206**	**96,084**	**451,779**	**482,548**	**468,523**	**1,563,140**
- Consumer lending	**562,126**	**-**	**-**	**-**	**-**	**562,126**
Effective interest rate adjustment (Note 5)	**(8,760)**	**-**	**-**	**-**	**-**	**(8,760)**
	617,572	**96,166**	**453,930**	**482,548**	**468,523**	**2,118,739**

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

26. Financial Instruments *(continued)*

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

	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 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)**
Loans and advances to banks	**7,025**	**-**	**-**	**7,025**
Total	**490,091**	**26,890**	**12,241**	**529,222**
Fair value of collateral	**431,270**	**11,669**	**18,159**	**461,098**

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

Financial assets by class individually impaired

	2009		
	Gross exposure KD 000's	**Impairment KD 000's**	**Fair value of collateral KD 000's**
Loans and advances:			
- Corporate lending	**1,107,398**	**450,238**	**602,353**
- Consumer lending	**41,235**	**33,636**	**541**
Effective interest rate adjustment (Note 5)	**(7)**	**-**	**-**
	1,148,626	**483,874**	**602,894**

	2008		
	Gross exposure KD 000's	Impairment KD 000's	Fair value of collateral KD 000's
Loans and advances:			
- Corporate lending	443,425	267,118	221,487
- Consumer lending	39,092	29,960	90
Effective interest rate adjustment	(8)	-	-
	482,509	297,078	221,577

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 28.

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

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

The amount subject to credit risk is insignificant and is limited to the current replacement value of instruments that are favourable to the Bank, which is only a fraction of the contractual or notional amounts used to express the volumes outstanding. This credit risk exposure is managed as part of the overall borrowing limits granted to customers. Collateral security is not usually obtained for credit risk exposures on these instruments. These instruments are disclosed in Note 30.

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, 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**	**2009 KD 000's**	2008 KD 000's
KWD	+25	**2,141**	1,312
USD	+25	**87**	452
EUR	+25	**(33)**	21
GBP	+25	**5**	1

Currency	**Movement in basis points**	**2009 KD 000's**	2008 KD 000's
KWD	-25	**(2,794)**	(1,592)
USD	-25	**(87)**	(452)
EUR	-25	**33**	(21)
GBP	-25	**(5)**	(1)

A 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, a change in currency movements with all other variables held constant, the Bank's profit and equity would move as follows:

	2009			2008		
Currency	**Change in currency rate in %**	**Impact on loss KD 000's**	**Impact on equity KD 000's**	Change in currency rate in %	Impact on loss KD 000's	Impact on equity KD 000's
USD	**+5**	**(5,774)**	**5,427**	+5	(5,901)	5,845
EURO	**+5**	**(565)**	**573**	+5	(646)	651

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

D. LIQUIDITY RISK

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

Liquidity risk arises in the general funding of a bank's activities. Under the guidance of the Asset Liability Committee (ALCO), the treasury group 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.

26. Financial Instruments *(continued)*

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

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 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 Central Bank of Kuwait	-	-	-	-	-	-	-
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	-

At 31 December 2008

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

26. Financial Instruments *(continued)*

The table below summarises 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 was to be given immediately.

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 Central Bank of Kuwait	**-**	**-**	**-**	**-**	**-**	**-**
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**

At 31 December 2008

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

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 2009:						
Contingent liabilities	**153,900**	**193,235**	**527,717**	**286,408**	**-**	**1,161,260**
Capital commitment	**-**	**-**	**1,606**	**-**	**-**	**1,606**
Commitments	**187**	**23,001**	**45,445**	**-**	**-**	**68,633**
	154,087	**216,236**	**574,768**	**286,408**	**-**	**1,231,499**
At 31 December 2008:						
Contingent liabilities	265,814	353,068	1,247,345	257,134	83,843	2,207,204
Commitments	2,477	35,645	42,582	40,830	322	121,856
	268,291	388,713	1,289,927	297,964	84,165	2,329,060

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 2009:					
Gross settled derivatives	**5,237**	**-**	**-**	**-**	**5,237**
At 31 December 2008:					
Gross settled derivatives	-	60,530	4,102	-	64,632

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.

A 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.

27. 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.

28. 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:

	2009 KD 000's	2008 KD 000's
Guarantees	**941,928**	1,376,958
Letters of credit	**219,332**	830,246
Capital commitment	**1,606**	-
Irrevocable commitments to extend credit:		
Original term to maturity of one year or less	**68,633**	121,535
Original term to maturity of more than one year	**-**	321
	68,633	121,856
	1,231,499	2,329,060

29. SEGMENTAL ANALYSIS

a. By Business Unit

Commercial Banking	Acceptance of deposits from individuals, corporates 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 2009

	Commercial Banking		Treasury & Investments		Total	
	2009 KD 000's	2008 KD 000's	**2009 KD 000's**	2008 KD 000's	**2009 KD 000's**	2008 KD 000's
Operating income	**113,095**	108,308	**38,525**	(118,159)	**151,620**	(9,851)
Segment result	**(59,024)**	(19,599)	**35,933**	(120,600)	**(23,091)**	(140,199)
Unallocated income	**-**	-	**-**	-	**(20,950)**	27,266
Unallocated expense	**-**	-	**-**	-	**15,968**	(246,135)
Operating loss	**-**	-	**-**	-	**(28,073)**	(359,068)
Segment assets	**3,312,858**	3,502,830	**1,363,547**	1,375,425	**4,676,405**	4,878,255
Unallocated assets	**-**	-	**-**	-	**67,506**	69,192
Total assets	**-**	-	**-**	-	**4,743,911**	4,947,447
Segment liabilities	**2,332,056**	2,784,231	**1,866,121**	1,915,885	**4,198,177**	4,700,116
Unallocated liabilities and equity	**-**	-	**-**	-	**545,734**	247,331
Total liabilities and equity					**4,743,911**	4,947,447

Geographic segment information relating to locations of assets, liabilities and off balance sheet is given in note 26A.

No revenue from transactions with a single external customer or counter party resulted to 10% or more of the Bank's total revenue in 2009 or 2008.

30. 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 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**

At 31 December 2008

				Notional amounts by term to maturity		
Derivatives instruments held as:	Positive fair value KD 000's	Negative fair value KD 000's	Notional amount Total KD 000's	Within 3 months KD 000's	3-12 months KD 000's	Over 1 year KD 000's
Trading (and non qualifying hedges)						
Forward foreign exchange contracts	126	(5,704)	64,632	60,530	4,102	-
Credit default swaps	-	(60,839)	433,190	-	-	433,190
Structured products (Note 15)	62,785	(51)	72,437	-	-	72,437
	62,911	(66,594)	570,259	60,530	4,102	505,627

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.

31. CAPITAL ADEQUACY & CAPITAL MANAGEMENT

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

32. SIGNIFICANT EVENT

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

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

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

During the subscription period in January 2009, 68% of the rights issue was subscribed to by the existing Shareholders and in line with the resolutions adopted by Shareholders at the above extraordinary general meeting, Kuwait Investment Authority took the unsubscribed shares.

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