

**NATIONAL BANK OF KUWAIT GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

National Bank of Kuwait Group  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2009

	<i>Notes</i>	<b>2009</b> <b>KD 000's</b>	2008 <i>KD 000's</i>
Interest income	4	<b>546,748</b>	684,470
Interest expense	5	<b>169,921</b>	317,715
<b>Net interest income</b>		<b>376,827</b>	366,755
Net fees and commissions	6	<b>103,496</b>	101,412
Net gains/(losses) from investment securities	7	<b>12,888</b>	(2,148)
Net gains from dealing in foreign currencies		<b>27,225</b>	29,540
Dividend income		<b>2,076</b>	4,561
Share of (loss) / profit of associates		<b>(5,218)</b>	7,396
Other operating income		<b>1,157</b>	958
<b>Net operating income</b>		<b>518,451</b>	508,474
Staff expenses		<b>90,756</b>	91,927
Other administrative expenses	8	<b>76,948</b>	56,483
Depreciation of premises and equipment		<b>7,644</b>	6,701
Amortisation of intangible assets	15	<b>4,558</b>	4,390
<b>Operating expenses</b>		<b>179,906</b>	159,501
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>338,545</b>	348,973
Provision charge for credit losses - specific	12	<b>10,261</b>	17,104
Provision charge for credit losses - general	12	<b>27,180</b>	41,470
Impairment losses for investment securities	13	<b>18,158</b>	22,182
<b>Operating profit before taxation</b>		<b>282,946</b>	268,217
Taxation	9	<b>16,310</b>	10,640
<b>Profit for the year</b>		<b>266,636</b>	257,577
Attributable to:			
Shareholders of the parent Bank		<b>265,220</b>	255,349
Non-controlling interests		<b>1,416</b>	2,228
		<b>266,636</b>	257,577
<b>Basic and diluted earnings per share attributable to shareholders of the parent Bank</b>	10	<b>92 fils</b>	87 fils

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

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>Notes</i>	<b>2009</b> <b>KD 000's</b>	2008 <i>KD 000's</i>
<b>Profit for the year</b>		<b>266,636</b>	257,577
<b>Other comprehensive income</b>			
Change in fair value of investments available for sale		<b>10,271</b>	(38,088)
Net losses on investments available for sale transferred to statement of income		<b>7,019</b>	2,216
Share of other comprehensive income of associates		<b>2,773</b>	(3,389)
Exchange differences on translation of foreign operations		<b>24,366</b>	(4,605)
<b>Other comprehensive income (loss) for the year included in equity</b>		<b>44,429</b>	(43,866)
<b>Total comprehensive income for the year</b>		<b>311,065</b>	213,711
Attributable to:			
Shareholders of the parent Bank		<b>309,031</b>	211,421
Non-controlling interests		<b>2,034</b>	2,290
		<b>311,065</b>	213,711

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

# National Bank of Kuwait Group

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
<b>Assets</b>			
Cash and short term funds	11	<b>1,622,240</b>	1,398,846
Central Bank of Kuwait bonds	13	<b>281,489</b>	156,897
Kuwait Government treasury bills	13	<b>32,477</b>	-
Kuwait Government treasury bonds	13	<b>373,202</b>	477,141
Deposits with banks		<b>723,509</b>	1,161,915
Loans and advances to customers	12	<b>7,817,110</b>	6,955,405
Investment securities	13	<b>1,171,046</b>	1,200,296
Investment in associates	14	<b>387,815</b>	127,621
Land, premises and equipment		<b>152,929</b>	133,292
Goodwill and other intangible assets	15	<b>249,556</b>	243,275
Other assets	16	<b>95,883</b>	118,634
<b>Total assets</b>		<b><u>12,907,256</u></b>	<b><u>11,973,322</u></b>
<b>Liabilities</b>			
Due to banks and other financial institutions		<b>4,269,109</b>	4,622,253
Customer deposits		<b>6,600,243</b>	5,545,249
Other liabilities	17	<b>199,241</b>	237,254
<b>Total liabilities</b>		<b><u>11,068,593</u></b>	<b><u>10,404,756</u></b>
<b>Equity</b>			
<b>Equity attributable to shareholders of the parent Bank</b>			
Share capital	18	<b>297,350</b>	270,318
Proposed bonus shares	19	<b>29,735</b>	27,032
Statutory reserve	18	<b>148,675</b>	135,159
Share premium account	18	<b>569,006</b>	569,006
Treasury shares	18	<b>(59,172)</b>	(153,821)
Treasury share reserve	18	<b>19,973</b>	41,122
General reserve	18	<b>117,058</b>	117,058
Retained earnings	18	<b>553,241</b>	448,422
Foreign currency translation reserve	18	<b>15,264</b>	(9,008)
Cumulative changes in fair values	18	<b>11,453</b>	(8,086)
Share based payment reserve	18	<b>5,549</b>	2,965
Total share capital and reserves		<b>1,708,132</b>	1,440,167
Proposed cash dividend	19	<b>117,150</b>	117,374
		<b>1,825,282</b>	1,557,541
Non-controlling interests		<b>13,381</b>	11,025
<b>Total equity</b>		<b><u>1,838,663</u></b>	<b><u>1,568,566</u></b>
<b>Total liabilities and equity</b>		<b><u>12,907,256</u></b>	<b><u>11,973,322</u></b>

Mohammed Abdul Rahman Al-Bahar  
Chairman

Ibrahim Shucri Dabdoub  
Group Chief Executive Officer

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

National Bank of Kuwait Group  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
<b>Operating activities</b>			
Profit for the year		<b>266,636</b>	257,577
Adjustments :			
Dividend income		<b>(2,076)</b>	(4,561)
Net (gains)/losses from investment securities	7	<b>(12,888)</b>	2,148
Share of loss / (profit) of associates		<b>5,218</b>	(7,396)
Depreciation of premises and equipment		<b>7,644</b>	6,701
Amortisation of intangible assets		<b>4,558</b>	4,390
Provision charge for credit losses		<b>37,441</b>	58,574
Impairment losses for investment securities		<b>18,158</b>	22,182
Share based payment reserve		<b>2,584</b>	1,972
Taxation	9	<b>16,310</b>	10,640
Operating profit before changes in operating assets and liabilities		<b>343,585</b>	352,227
Changes in operating assets and liabilities:			
Central Bank of Kuwait bonds		<b>(124,592)</b>	70,265
Kuwait Government treasury bills		<b>(32,477)</b>	-
Kuwait Government treasury bonds		<b>103,939</b>	(138,775)
Deposits with banks		<b>438,406</b>	679,668
Loans and advances to customers		<b>(899,739)</b>	(1,093,598)
Other assets		<b>22,751</b>	12,805
Due to banks and other financial institutions		<b>(353,144)</b>	509,380
Customer deposits		<b>1,054,994</b>	38,739
Other liabilities		<b>(59,053)</b>	11,110
Tax paid		<b>(10,505)</b>	(11,700)
Net cash from operating activities		<b>484,165</b>	430,121
<b>Investing activities</b>			
Purchase of investment securities		<b>(1,715,719)</b>	(2,058,035)
Sale/redemption of investment securities		<b>1,756,990</b>	1,676,002
Dividend income		<b>2,076</b>	4,561
Increase in holding in subsidiaries		<b>(1,201)</b>	(1,774)
Investment in associates		<b>(263,822)</b>	(52,838)
Dividend from associates		<b>6,385</b>	4,096
Proceeds from sale of associate		<b>1,309</b>	-
Proceeds from sale of land, premises and equipment		<b>404</b>	441
Acquisition of land, premises and equipment		<b>(27,685)</b>	(35,558)
Net cash used in investing activities		<b>(241,263)</b>	(463,105)
<b>Financing activities</b>			
Dividends paid		<b>(117,374)</b>	(184,308)
Sale of treasury shares		<b>111,592</b>	51,445
Purchase of treasury shares		<b>(38,092)</b>	(208,854)
Net cash used in financing activities		<b>(43,874)</b>	(341,717)
<b>Increase/(decrease) in cash and short term funds</b>		<b>199,028</b>	(374,701)
Exchange difference on translation of foreign operations		<b>24,366</b>	(4,605)
Cash and short term funds at the beginning of the year		<b>1,398,846</b>	1,778,152
<b>Cash and short term funds at the end of the year</b>	11	<b>1,622,240</b>	1,398,846

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

National Bank of Kuwait Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Equity attributable to shareholders of the parent Bank							Total	Non controlling interests	Total
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 18)			
At 1 January 2008	245,744	24,574	122,872	569,006	-	44,710	678,959	1,685,865	9,043	1,694,908
Total comprehensive income	-	-	-	-	-	-	211,421	211,421	2,290	213,711
Transfer to statutory reserve	-	-	12,287	-	-	-	(12,287)	-	-	-
Issue of bonus shares	24,574	(24,574)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(208,854)	-	-	(208,854)	-	(208,854)
Sale of treasury shares	-	-	-	-	55,033	-	-	55,033	-	55,033
Loss on sale of treasury shares	-	-	-	-	-	(3,588)	-	(3,588)	-	(3,588)
Dividends paid	-	-	-	-	-	-	(184,308)	(184,308)	-	(184,308)
Proposed bonus shares	-	27,032	-	-	-	-	(27,032)	-	-	-
Share based payment (Note 20)	-	-	-	-	-	-	1,972	1,972	-	1,972
Movement in non-controlling interests	-	-	-	-	-	-	-	-	(308)	(308)
At 31 December 2008	270,318	27,032	135,159	569,006	(153,821)	41,122	668,725	1,557,541	11,025	1,568,566
Total comprehensive income	-	-	-	-	-	-	309,031	309,031	2,034	311,065
Transfer to statutory reserve	-	-	13,516	-	-	-	(13,516)	-	-	-
Issue of bonus shares	27,032	(27,032)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(38,092)	-	-	(38,092)	-	(38,092)
Sale of treasury shares	-	-	-	-	132,741	-	-	132,741	-	132,741
Loss on sale of treasury shares	-	-	-	-	-	(21,149)	-	(21,149)	-	(21,149)
Dividends paid	-	-	-	-	-	-	(117,374)	(117,374)	-	(117,374)
Proposed bonus shares	-	29,735	-	-	-	-	(29,735)	-	-	-
Share based payment (Note 20)	-	-	-	-	-	-	2,584	2,584	-	2,584
Movement in non-controlling interests	-	-	-	-	-	-	-	-	322	322
<b>At 31 December 2009</b>	<b>297,350</b>	<b>29,735</b>	<b>148,675</b>	<b>569,006</b>	<b>(59,172)</b>	<b>19,973</b>	<b>819,715</b>	<b>1,825,282</b>	<b>13,381</b>	<b>1,838,663</b>

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

## 1 INCORPORATION AND REGISTRATION

The consolidated financial statements of National Bank of Kuwait S.A.K. (“the Bank”) and its subsidiaries (collectively “the Group”) for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the directors on 7 January 2010. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance. The Bank is a public shareholding company incorporated in Kuwait in 1952 and is registered as a bank with the Central Bank of Kuwait. The Bank’s head office is at Abdullah Al Ahmed Street, PO Box 95 Safat, 13001 Kuwait.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the regulations of 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 a 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 of financial assets.

The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of derivatives and investment securities other than held to maturity investments. In addition and as more fully described below, assets and liabilities that are hedged in fair value hedging relationships are carried at fair value to the extent of the risk being hedged.

### 2.2 Changes in accounting policies

The accounting policies applied are consistent with those used in the previous year except that the Group has adopted the following standards effective for the annual periods beginning on or after 1 January 2009. The adoption of these standards did not have any effect on the financial performance or financial position of the Group. They did however give rise to additional disclosures.

#### *a. IAS 1 ‘Presentation of Financial Statements’ (Revised):*

The new standard replaced IAS 1 ‘Presentation of Financial Statements’ and is effective for accounting periods beginning on or after 1 January 2009. The revised standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in a consolidated statement of comprehensive income. The changes introduced by this standard affect only the presentation of consolidated financial statements.

#### *b. IFRS 8 ‘Operating segments’:*

The new standard which replaced IAS 14 ‘Segment reporting’ requires a management approach for segment reporting under which segment information is presented in a manner that is more consistent with the internal reporting provided to the chief operating decision maker. This has resulted in an increase in the number of reportable segments presented. The changes do not affect the recognition, measurement or disclosure of specific transactions required by other standards.

#### *c. Amendments to IFRS 7 ‘Financial Instruments: Disclosures’:*

Amendments to IFRS 7, issued in March 2009, require enhanced disclosure about fair value measurements and liquidity risk of derivatives. The changes do not affect the recognition, measurement or disclosure of specific transactions required by other standards.

### **Future changes in accounting policies:**

The following standards and interpretations, which have been issued but are not yet effective, are applicable to the Group. These standards and interpretations have not been applied in these financial statements. The Group intends to comply with these standards from the effective dates.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

- a. *IFRS 3 (Revised) – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009, ie 1 January 2010 for the Group).*

The main change to the standard that affects the Group's current policies is that acquisition related costs are expensed in the statement of income in the periods in which the costs are incurred and the services received, except for costs related to the issue of debt (recognised as part of the effective interest rate) and the cost of issue of equity (recognised directly in equity). Currently the Group recognises acquisition costs as part of the purchase consideration. Also changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor will it give rise to a gain or loss in the consolidated statement of income.

- b. *IFRS 9 'Financial Instruments: Classification and measurement*

The Standard introduces new requirements for classification and measurement of financial assets and is effective from 1 January 2013, however early adoption is permitted. The Group has not early adopted this standard for year ended 31 December 2009.

**2.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of National Bank of Kuwait S.A.K. and its subsidiaries as at 31 December each year unless otherwise stated. The financial statements of subsidiaries and associates are prepared using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated on consolidation.

- a. *Subsidiaries*

Subsidiaries are all entities over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are not consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference (negative goodwill) is recognised directly in the statement of income.

- b. *Non-controlling interest*

Interest in the equity of subsidiaries not attributable to the Bank is reported as non-controlling interest in the consolidated statement of financial position. Profit or losses of subsidiaries not attributable to the Bank is reported in the consolidated statement of income as profit or losses attributable to non-controlling interests.

- c. *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is initially recognised at cost and subsequently accounted for by the equity method of accounting. The Group's investment in associates includes goodwill identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Foreign currencies

The consolidated financial statements are presented in Kuwaiti Dinars (thousands) which is the Bank's functional currency.

#### *a. Translation of foreign currency transactions*

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies (other than monetary items that form part of the net investment in a foreign operation) are translated into functional currency at rates of exchange prevailing at the statement of financial position date. Any gains or losses are taken to the consolidated statement of income. Exchange differences arising on monetary items that form part of the net investment in a foreign operation are determined using closing rates and recognised as a separate component of equity (foreign currency translation reserve) upon consolidation, and are recognised in the consolidated statement of income upon disposal of the investment. Goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities are recorded at the functional currency of the foreign operation and are translated to the presentation currency at the rate of exchange prevailing at the statement of financial position date. All resulting exchange differences are recognized in equity (foreign currency translation reserve).

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available for sale, unless the non-monetary item is part of an effective hedging strategy.

#### *b. Translation of financial statements of foreign entities*

The results and financial position of all the group entities that have a functional currency different from the presentation currency is translated to presentation currency as follows:

The assets and liabilities are translated at rates of exchange ruling at the statement of financial position date. Income and expense items are translated at average exchange rates for the period. All resulting exchange differences (including those on transactions which hedge such investments) are recognised in equity (foreign currency translation reserve) and duly recognised in the consolidated statement of income on disposal of the foreign operation.

### 2.5 Revenue recognition

#### *a. Interest*

Interest income is recognised in the consolidated statement of income for all interest bearing financial assets using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability or a shorter period, where appropriate to the net carrying amount of the financial asset or liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using the effective yield method.

#### *b. Fees and commission income*

Fee income earned from services provided over a period of time is recognised over the period of service. Fees arising from providing a transaction service are recognised on completion of the underlying transaction.

#### *c. Dividend income*

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

### 2.6 Taxation

Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that taxable profit will be available to utilise this. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the statement of financial position date.

### 2.7 Cash and short term funds

Cash and short term funds consist of cash in hand and on current account with other banks together with money at call and deposits with banks and other financial institutions maturing within seven days.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Deposits with banks

Deposits with banks and other financial institutions are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

### 2.9 Loans and advances to customers

Loans and advances are financial assets with fixed or determinable payments that are not quoted in an active market.

#### *Carrying value*

Loans and advances are stated at amortised cost using the effective interest method less any amounts written off and provision for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

#### *Renegotiated loans*

In the event of a default, the Group seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loan continues to be subject to an individual or collective impairment assessment.

### 2.10 Financial Investments

The Group classifies its financial investments in the following categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through statement of income

All investments with the exception of investments at fair value through statement of income, are initially recognised at cost, being the fair value of the consideration given including directly attributable transaction costs. Premiums and discounts on non-trading investments (excluding those carried at fair value through statement of income) are amortised using the effective yield method and taken to interest income.

#### *Held to maturity*

Held to maturity investments are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold to maturity. Held to maturity investments are measured at amortised cost, less provision for impairment in value if any. The losses arising from impairment of such investments are recognised in the consolidated statement of income.

#### *Available for sale*

Available for sale investments are those investments which are designated as available for sale or investments that do not qualify to be classified as fair value through statement of income, held to maturity, or loans and advances. After initial recognition, investments which are classified as "available for sale" are normally remeasured at fair value, unless fair value cannot be reliably determined in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair values" within equity, is included in the statement of income for the period. In case of a reversal of previously recognised impairment losses for equity investments, such changes will not be recognised in the current statement of income but will be recorded as an increase in the reserve for cumulative changes in fair values. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through consolidated statement of income.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Financial Investments (continued)

The portion of any fair value changes relating to an effective hedging relationship is recognised directly in the statement of income.

#### *Investments carried at fair value through statement of income*

Investments are classified as "investments carried at fair value through statement of income" if they are held for trading or upon initial recognition, are designated as fair value through statement of income. Investments are classified as held for trading when they are acquired for the purpose of selling or repurchase in the near term with the intention of generating short-term profits, or are derivatives which are not designated as part of effective hedges. Investments are designated as fair value through statement of income if the fair value of the investment can be reliably measured and the classification as fair value through statement of income is as per the documented strategy of the Group. Investments classified as "investments carried at fair value through statement of income" are remeasured at fair value with all changes in fair value being recorded in the statement of income.

### 2.11 Fair values

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

For financial instruments where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent transactions
- option pricing models

The estimated fair value of deposits with no stated maturity, including non-interest bearing deposits, is the amount payable on demand.

### 2.12 Repurchase and resale agreements

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

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

### 2.13 Offsetting of financial assets and liabilities

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Impairment 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 may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogenous assets. Impairment is determined as follows:

- for financial assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate
- for financial assets carried at fair value, impairment is the difference between cost and fair value
- for financial assets carried at cost, impairment is the difference between actual cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset

For available for sale equity investments reversals of impairment losses are recorded as increase in the cumulative changes in fair values reserve.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

### 2.15 Derecognition of financial assets and financial liabilities

#### Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Group 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 Group 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 Group 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 Group'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 Group could be required to repay.

#### Financial liabilities

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 the recognition of a new liability.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.16 Derivative financial instruments**

The Group enters into derivative instrument transactions including futures, forwards, swaps and options in the foreign exchange and capital markets. All derivative financial instruments of the Group are recorded in the statement of financial position at fair value. 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. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

For the purposes 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 forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument is recognised immediately in the statement of income. The hedged items are adjusted for fair value changes relating to the risk being hedged and the difference is recognised in the statement of income.

Where the adjustment relates to a hedged interest bearing financial instrument, the adjustment is amortised to the statement of income on a systematic basis such that it is fully amortised by maturity.

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 initially in equity and any ineffective portion is recognised in the statement of income. The gains or losses on cash flow hedges recognised initially in equity are transferred to the statement of income in the period in which the hedged transaction impacts the statement of income. Where the hedged transaction results in the recognition of an asset or liability, the associated gains or losses that had initially been recognised in equity are included in the initial measurement of the cost of the related asset or liability.

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in fair value of the hedging instrument are taken directly to the statement of income.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or is revoked by the Group. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the forecasted transaction occurs. In the case of fair value hedges of interest bearing financial instruments, any adjustment relating to the hedge is amortised over the remaining term to maturity. Where the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the statement of income.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the statement of income. These embedded derivatives are measured at fair value with the changes in fair value recognised in the statement of income.

**2.17 Trade and settlement date accounting**

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.18 Land, premises and equipment**

Land and premises comprise mainly branches and offices. All premises and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the period in which they are incurred.

Land is not depreciated. Depreciation is provided on the depreciable amount of other items of premises and equipments on a straight line basis over their estimated useful life. The depreciable amount is the gross carrying value, less the estimated residual value at the end of its useful life. The estimated useful life of premises and equipments are as follows:

Building on leasehold land	term of lease (maximum 20 years)
Building on freehold land	50 years
Equipment	3-7 years

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each statement of financial position date. The carrying values of land, premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of income.

**2.19 Business combinations and goodwill**

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring expenses) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is recorded in the functional currency of the foreign operation and is translated to the presentation currency at the rate of exchange prevailing at the statement of financial position date. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the statement of income.

**2.20 Intangible assets**

Intangible assets comprise separately identifiable intangible items arising from business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefit will flow to the Bank. Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life of 5 to 12 years and tested for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually and whenever there is an indication that the intangible asset may be impaired.

If the carrying value of the intangible asset is more than the recoverable amount, the intangible asset is considered impaired and is written down to its recoverable amount. The excess of carrying value over the recoverable amount is recognised in the statement of income.

Impairment losses on intangible assets recognised in the statement of income in previous periods, are reversed when there is an increase in the recoverable amount.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.21 Due to Banks and Financial Institutions & Customer deposits

Due to Banks and Financial Institutions & Customer Deposits are stated at amortised cost using effective interest method. The carrying values of such liabilities which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged.

### 2.22 Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected payments less the unamortised premium is charged to the consolidated statement of income.

### 2.23 Share based compensation

The Bank operates an equity settled share based compensation plan. The fair value of the employee services received in exchange for the grant of options or shares is recognised as an expense, together with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options or shares on the date of grant using the Black Scholes model. At each statement of financial position date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of income, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

### 2.24 Treasury shares

The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non 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 reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury share reserve amount. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

### 2.25 Fiduciary assets

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

### 2.26 Significant accounting judgements and estimates

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

#### Accounting judgements

##### *Impairment of investments*

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments, the future cash flows and discount factors for unquoted investments.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.26 Significant accounting judgements and estimates (continued)

#### Estimates

The key assumptions concerning estimates made 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 are discussed below:

#### *Impairment losses on loans and advances and investments in debt instruments*

The Group reviews problem loans and advances and investments in debt instruments on a quarterly basis to assess whether a provision for impairment should be recorded in the statement of income. 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 judgement and uncertainty and actual results may differ, resulting in future changes to such provisions.

#### *Valuation of unquoted investments*

Valuation of unquoted investments is normally based on one of the following:

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

The determination of cash flows and discount factors for unquoted investments requires significant estimation.

## 3 SEGMENTAL ANALYSIS

The Group organises and manages its operations by geographic territory in the first instance, primarily Domestic and International. Within its domestic operations, the Group segments its business into Consumer Banking, Corporate Banking, Investment Management and Asset Management, and Group Centre. All operations outside Kuwait are classified as International. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

### **Consumer Banking**

Consumer Banking provides a diversified range of products and services to individuals. The range includes consumer loans, credit cards, deposits, foreign exchange and other branch related services. This business segment also comprises Private Banking. Private Banking provides a comprehensive range of customised and innovative banking services to high net worth individuals and to institutional clients.

### **Corporate Banking**

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance, foreign exchange and advisory services.

### **Investment Banking and Asset Management**

Investment Banking provides a full range of capital market advisory and execution services. The activities of Asset Management include wealth management, asset management, custody, brokerage and research.

### **Group Centre**

Group Centre includes treasury, investments and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the bank's liquidity management and market risk. Group Centre includes any residual in respect of transfer pricing and inter segment allocations.

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**3 SEGMENTAL ANALYSIS (continued)****2009**

	Consumer Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income	137,620	138,855	1,889	23,259	75,204	376,827
Share of (loss) / profit of associates	-	-	-	(13,310)	8,092	(5,218)
Net operating income	181,619	184,414	25,875	13,797	112,746	518,451
Depreciation and amortisation expenses	3,630	97	285	6,404	1,786	12,202
<b>Profit for the year</b>	<b>108,879</b>	<b>156,172</b>	<b>14,300</b>	<b>(69,123)</b>	<b>56,408</b>	<b>266,636</b>
<b>Total Assets</b>	<b>2,790,653</b>	<b>4,233,332</b>	<b>68,414</b>	<b>1,392,257</b>	<b>4,422,600</b>	<b>12,907,256</b>
<b>Total Liabilities</b>	<b>2,363,965</b>	<b>1,313,105</b>	<b>4,926</b>	<b>3,190,138</b>	<b>4,196,459</b>	<b>11,068,593</b>

**2008**

	Consumer Banking KD 000's	Corporate Banking KD 000's	Investment Banking and Asset Management KD 000's	Group Centre KD 000's	International KD 000's	Total KD 000's
Net interest income	146,788	125,594	2,081	24,044	68,248	366,755
Share of profit of associates	-	-	-	-	7,396	7,396
Net operating income	188,735	165,830	27,314	17,391	109,204	508,474
Depreciation and amortisation expenses	3,229	50	280	5,764	1,768	11,091
<b>Profit for the year</b>	<b>104,115</b>	<b>139,620</b>	<b>15,015</b>	<b>(51,087)</b>	<b>49,914</b>	<b>257,577</b>
<b>Total Assets</b>	<b>2,621,467</b>	<b>3,584,211</b>	<b>52,800</b>	<b>398,746</b>	<b>5,316,098</b>	<b>11,973,322</b>
<b>Total Liabilities</b>	<b>2,168,939</b>	<b>1,252,350</b>	<b>4,895</b>	<b>1,881,926</b>	<b>5,096,646</b>	<b>10,404,756</b>

**Geographic information:**

The following table shows the geographic distribution of the Group's operating income based on the location of the operating entities.

<b>Net operating income</b>	<b>2009</b> <i>KD 000's</i>	<b>2008</b> <i>KD 000's</i>
Kuwait	408,388	404,900
Other Middle East and North Africa	89,102	77,764
Europe	12,773	17,275
Others	8,188	8,535
	<b>518,451</b>	<b>508,474</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**4 INTEREST INCOME**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Deposits with banks	<b>45,040</b>	121,889
Loans and advances to customers	<b>444,000</b>	500,838
Investment securities	<b>42,062</b>	40,040
Other	<b>15,646</b>	21,703
	<u><b>546,748</b></u>	<u>684,470</u>

**5 INTEREST EXPENSE**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Due to banks and other financial institutions	<b>66,790</b>	112,333
Customer deposits	<b>103,131</b>	205,382
	<u><b>169,921</b></u>	<u>317,715</u>

**6 NET FEES AND COMMISSIONS**

Gross fees and commission income amounted to KD 114,791 thousand (2008: KD 112,678 thousand) and related fees and commission expenses amounted to KD 11,295 thousand (2008: KD 11,266 thousand). Gross fees and commission income includes KD 24,241 thousand relating to trust and fiduciary activities (2008: KD 26,383 thousand).

**7 NET GAINS/ (LOSSES) FROM INVESTMENT SECURITIES**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Realised gains on available for sale investments	<b>11,139</b>	19,966
Net gains/(losses) from investments carried at fair value through statement of income	<b>709</b>	(22,114)
Realised gains on sale of associate (Note: 14)	<b>1,040</b>	-
	<u><b>12,888</b></u>	<u>(2,148)</u>

**8 OTHER ADMINISTRATIVE EXPENSES**

Other administrative expenses for the year include payments totalling KD 19.4 million in respect of the Bank's decision to compensate clients who had invested through the Bank in a fund that utilised Bernard L. Madoff Investment Securities LLC as its execution agent and sub custodian.

**9 TAXATION**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
National labour support tax	<b>5,323</b>	4,753
Contribution to Kuwait Foundation for the Advancement of Sciences	<b>2,625</b>	2,318
Zakat	<b>2,246</b>	2,040
Taxation on overseas branches and subsidiaries	<b>6,116</b>	1,529
	<u><b>16,310</b></u>	<u>10,640</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**10 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares. The diluted earnings per share arising from the issue of employee share options does not result in any change from the reported basic earnings per share.

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Profit for the year attributable to shareholders of the parent Bank	<b>265,220</b>	255,349
Weighted average number of shares outstanding during the year (thousands)	<b>2,892,229</b>	2,942,111
Basic and diluted earnings per share	<b>92 fils</b>	87 fils

Earnings per share calculations for 2008 have been adjusted to take account of the bonus shares issued in 2009.

**11 CASH AND SHORT TERM FUNDS**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Balances with Central Bank of Kuwait	<b>42,841</b>	42,352
Cash on hand and on current account with other banks	<b>872,511</b>	608,442
Money at call	<b>289,214</b>	78,633
Deposits with banks maturing within seven days	<b>417,674</b>	669,419
	<b>1,622,240</b>	1,398,846

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**12 LOANS AND ADVANCES TO CUSTOMERS**

	<i>Middle East and North Africa KD 000's</i>	<i>North America KD 000's</i>	<i>Europe KD 000's</i>	<i>Asia KD 000's</i>	<i>Other KD 000's</i>	<i>Total KD 000's</i>
<b>2009</b>						
Corporate	<b>5,483,677</b>	<b>36,413</b>	<b>298,719</b>	<b>58,682</b>	<b>43,960</b>	<b>5,921,451</b>
Retail	<b>2,188,859</b>	-	<b>3,012</b>	<b>4</b>	-	<b>2,191,875</b>
Loans and advances	<b>7,672,536</b>	<b>36,413</b>	<b>301,731</b>	<b>58,686</b>	<b>43,960</b>	<b>8,113,326</b>
Provision for credit losses						<b>(296,216)</b>
						<b>7,817,110</b>
<b>2008</b>						
Corporate	4,771,348	40,085	336,244	56,261	35,270	5,239,208
Retail	1,970,883	-	1,698	19	-	1,972,600
Loans and advances	6,742,231	40,085	337,942	56,280	35,270	7,211,808
Provision for credit losses						(256,403)
						6,955,405

Provisions for credit losses on cash facilities are as follows:

	<i>Specific</i>		<i>General</i>		<i>Total</i>	
	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>
Balance at beginning of the year	<b>115,686</b>	99,372	<b>140,717</b>	100,404	<b>256,403</b>	199,776
Amounts written off net of exchange movement	<b>1,414</b>	(915)	<b>365</b>	(959)	<b>1,779</b>	(1,874)
General provisions released during the year	-	-	-	(12,726)	-	(12,726)
Provided during the year	<b>10,666</b>	17,229	<b>27,368</b>	53,998	<b>38,034</b>	71,227
Balance at end of the year	<b>127,766</b>	115,686	<b>168,450</b>	140,717	<b>296,216</b>	256,403

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**12 LOANS AND ADVANCES TO CUSTOMERS (continued)**

Further analysis of specific provision based on class of financial asset is given below: -

	<i>Corporate</i>		<i>Retail</i>		<i>Total</i>	
	<b>2009</b> <i>KD 000's</i>	2008 <i>KD 000's</i>	<b>2009</b> <i>KD 000's</i>	2008 <i>KD 000's</i>	<b>2009</b> <i>KD 000's</i>	2008 <i>KD 000's</i>
Balance at beginning of the year	<b>73,317</b>	71,503	<b>42,369</b>	27,869	<b>115,686</b>	99,372
Amounts written off net of exchange movements	<b>2,075</b>	46	<b>(661)</b>	(961)	<b>1,414</b>	(915)
Provided during the year - net of recovery	<b>6,829</b>	1,768	<b>3,837</b>	15,461	<b>10,666</b>	17,229
Balance at end of the year	<b>82,221</b>	73,317	<b>45,545</b>	42,369	<b>127,766</b>	115,686

The provision charge on specific credit losses of KD 10,261 thousand (2008: KD 17,104 thousand) consists of provision against cash facilities of KD 10,666 thousand (2008: KD 17,229 thousand) and a provision release of KD 405 thousand (2008: KD 125 thousand) against non cash facilities.

General provision charge of KD 27,180 thousand (2008: KD 41,470 thousand) consists of provision charge of KD 27,368 thousand (2008: KD 41,272 thousand) against cash facilities and a provision release of KD 188 thousand (2008: provision charge of KD 198 thousand) against non cash facilities.

The available provision on non-cash facilities of KD 23,274 thousand (2008: KD 23,867 thousand) is included under other liabilities (Note 17).

The impairment provision for finance facilities complies in all material respects with the specific provision requirements of the Central Bank of Kuwait and IFRS. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the minimum rate from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. The then resultant general provision in excess of 1% for cash facilities and 0.5% for non-cash facilities was retained as a general provision pending further directive from the Central Bank of Kuwait. During the year the Central Bank of Kuwait approved a release from general provision of KD Nil (2008: KD 12,726 thousand).

Non-performing loans and advances and specific provisions are split between facilities granted pre-invasion and post-liberation, as follows:

	<i>Pre-invasion</i> <i>KD 000's</i>	<i>Post-liberation</i> <i>KD 000's</i>	<i>Total</i> <i>KD 000's</i>
<b>2009</b>			
Loans and advances	<b>21,323</b>	<b>121,212</b>	<b>142,535</b>
Provisions	<b>21,200</b>	<b>106,566</b>	<b>127,766</b>
2008			
Loans and advances	20,424	119,956	140,380
Provisions	20,299	95,387	115,686

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2009 amounts to KD 6,609 thousand (2008: KD 15,728 thousand). The collateral consists of cash, securities, bank guarantees and properties.

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**13 FINANCIAL INVESTMENTS**

The table below provides the details of the categorisation of financial investments

<b>2009</b>	<i>Held to maturity KD 000's</i>	<i>Available for sale KD 000's</i>	<i>Fair value through statement of income KD 000's</i>	<i>Total KD 000's</i>
<b>Investment securities</b>				
Debt securities – Government (Non Kuwait)	24,058	712,627	-	736,685
Debt securities - Non Government	11,485	208,001	-	219,486
Equities	-	62,200	423	62,623
Other investments	-	117,574	34,678	152,252
	<u>35,543</u>	<u>1,100,402</u>	<u>35,101</u>	<u>1,171,046</u>
<b>Central Bank of Kuwait bonds</b>	281,489	-	-	281,489
<b>Kuwait Government treasury bills</b>	32,477	-	-	32,477
<b>Kuwait Government treasury bonds</b>	373,202	-	-	373,202
	<u>722,711</u>	<u>1,100,402</u>	<u>35,101</u>	<u>1,858,214</u>
<i>Fair value through statement of income KD 000's</i>				
<b>2008</b>	<i>Held to maturity KD 000's</i>	<i>Available for sale KD 000's</i>	<i>Fair value through statement of income KD 000's</i>	<i>Total KD 000's</i>
<b>Investment Securities</b>				
Debt securities – Government (Non Kuwait)	86,228	675,040	-	761,268
Debt securities - Non Government	11,766	165,598	-	177,364
Equities	-	74,193	2,111	76,304
Other investments	-	137,640	47,720	185,360
	<u>97,994</u>	<u>1,052,471</u>	<u>49,831</u>	<u>1,200,296</u>
<b>Central Bank of Kuwait bonds</b>	156,897	-	-	156,897
<b>Kuwait Government treasury bonds</b>	477,141	-	-	477,141
	<u>732,032</u>	<u>1,052,471</u>	<u>49,831</u>	<u>1,834,334</u>

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 6,251 thousand (2008: KD 6,131 thousand), which are recorded at cost since fair value cannot be reliably estimated.

Debt securities include KD 109,976 thousand (2008: KD 67,106 thousand) which are at variable rates of interest and KD 846,195 thousand (2008: KD 871,526 thousand) which are at fixed rates of interest.

An impairment loss of KD 18,158 thousand (2008: KD 22,182 thousand) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

# National Bank of Kuwait Group

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### 14 INVESTMENT IN ASSOCIATES

Associates of the Group:

	<i>Carrying value</i>	
	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Boubyan Bank K.S.C.	<b>250,612</b>	-
International Bank of Qatar Q.S.C.	<b>100,123</b>	92,271
Turkish Bank A.S	<b>36,973</b>	35,031
Mecca Co. for Investments	-	293
International Co. for Postal Services	<b>107</b>	26
	<b>387,815</b>	127,621

<i>Name of entities</i>	<i>Country of incorporation</i>	<i>% Capital held</i>	
		<i>2009</i>	<i>2008</i>
Boubyan Bank K.S.C.	Kuwait	<b>40</b>	-
International Bank of Qatar Q.S.C.	Qatar	<b>30</b>	30
Turkish Bank A.S	Turkey	<b>40</b>	40
Mecca Co. for Investments	Egypt	-	30
International Co. for Postal Services	Egypt	<b>20</b>	20

The Group acquired 40% of the equity share capital of Boubyan Bank K.S.C. during the year for a purchase consideration of KD 263,822 thousands. Investments in International Co. for Postal Services are held through its subsidiary Al Watany Bank of Egypt S.A.E. Investment in Mecca Co. for Investments was sold during the year and the realised gain of KD 1,040 thousands is included in net gains/(losses) from investment securities (Note:7).

Summarised financial information of the associates is as follows:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Assets	<b>2,919,947</b>	1,807,659
Liabilities	<b>2,578,450</b>	1,582,459
Net operating income	<b>80,777</b>	52,896
Profit for the year	<b>(20,401)</b>	25,460

Fair value of Group's investment in Boubyan Bank K.S.C. at the year end is KD 233,000 thousands. All other associates are unlisted.

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**15 GOODWILL AND OTHER INTANGIBLE ASSETS**

	<b>Goodwill</b> <i>KD 000's</i>	<b>Intangible assets</b> <i>KD 000's</i>	<b>Total</b> <i>KD 000's</i>
<b>Cost</b>			
At 1 January 2009	178,281	69,394	247,675
Additions	541	-	541
Exchange adjustments	8,160	2,383	10,543
At 31 December 2009	<u>186,982</u>	<u>71,777</u>	<u>258,759</u>
<b>Accumulated amortisation</b>			
At 1 January 2009	-	4,400	4,400
Charge for the year	-	4,558	4,558
Exchange adjustments	-	245	245
At 31 December 2009	<u>-</u>	<u>9,203</u>	<u>9,203</u>
<b>Net book value</b>			
At 31 December 2008	<u>178,281</u>	<u>64,994</u>	<u>243,275</u>
At 31 December 2009	<u>186,982</u>	<u>62,574</u>	<u>249,556</u>

Net book value of goodwill as at 31 December 2009 includes KD 184,684 thousands (2008: KD 176,612 thousands) in respect of Al Watany Bank of Egypt S.A.E (AWB), a subsidiary in Egypt and KD 2,298 thousand (2008: KD 1,669 thousands) in respect of Credit Bank of Iraq S.A, a subsidiary in Iraq.

Net book value of intangible assets as at 31 December 2009 includes Brokerage license KD 17,552 thousands (2008: KD 17,552 thousands) in respect of Watani Financial Brokerage Company KSC (Closed), a subsidiary in Kuwait and is considered as an intangible asset with indefinite useful life. Other intangible assets are in respect of Al Watany Bank of Egypt S.A.E (AWB) and are amortised over a period of 5 to 12 years.

**Impairment testing for goodwill and intangible assets with indefinite useful life**

The carrying value of goodwill and intangible assets with indefinite useful life are tested for impairment on an annual basis (or more frequently if evidence exists that goodwill or intangible assets might be impaired) by estimating the recoverable amount of the cash generating unit (CGU) to which these items are allocated using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management over a five years period and a relevant terminal growth rate. These cash flows were then discounted to derive a net present value which is compared to the carrying value. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit.

A discount rate of 11.5% is used to estimate the recoverable amount of the Brokerage license in Kuwait. The goodwill in respect of Al Watany Bank of Egypt S.A.E (AWB) is allocated to a single cash generating unit which consists of identifiable net assets including intangible assets of AWB. A discount rate of 14.0% is used to estimate the recoverable amount of this cash generating unit. A terminal growth rate of 5.0% is applied in all cases. The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that goodwill or intangible assets are impaired.

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**16 OTHER ASSETS**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Interest receivable	<b>40,713</b>	64,482
Sundry debtors and prepayments	<b>27,269</b>	30,857
Other	<b>27,901</b>	23,295
	<u><b>95,883</b></u>	<u>118,634</u>

**17 OTHER LIABILITIES**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Interest payable	<b>30,780</b>	52,406
Interest received in advance	<b>23,420</b>	29,997
Taxation	<b>17,736</b>	11,931
General provision on non-cash facilities (Note 12)	<b>23,274</b>	23,867
Accrued expenses	<b>17,695</b>	20,946
Staff payables	<b>17,872</b>	22,402
Other	<b>68,464</b>	75,705
	<u><b>199,241</b></u>	<u><b>237,254</b></u>

**18 SHARE CAPITAL AND RESERVES**

## a) Share capital

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Authorised, issued and fully paid : 2,973,497,457 (2008 : 2,703,179,507 ) shares of KD 0.100 each	<u><b>297,350</b></u>	<u><b>270,318</b></u>

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

	<i>2009</i>	<i>2008</i>
Number of shares in issue as at 1 January	<b>2,703,179,507</b>	2,457,435,916
Bonus issue	<b>270,317,950</b>	245,743,591
Number of shares in issue as at 31 December	<u><b>2,973,497,457</b></u>	<u>2,703,179,507</u>

## b) Statutory reserve

The Board of Directors recommended a transfer of KD 13,516 thousand (2008: KD 12,287 thousand) to the statutory reserve. This is in compliance with the Bank's Articles of Association and the Law of Commercial Companies which require a minimum of 10% of profit to be transferred to a non distributable statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. Accordingly the transfer to statutory reserve, which is less than 10% of the profit for the year, is that amount required to make the statutory reserve 50% of the Bank's issued capital.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**18 SHARE CAPITAL AND RESERVES (continued)**

## c) Share premium account

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

## d) Treasury shares and Treasury share reserve

The Bank held the following treasury shares at the year end:

	<i>2009</i>	<i>2008</i>
Number of treasury shares	<b>44,741,494</b>	94,867,500
Treasury shares as a percentage of total shares in issue	<b>1.5%</b>	3.5%
Cost of treasury shares (KD thousand)	<b>59,172</b>	153,821
Market value of treasury shares (KD thousand)	<b>50,110</b>	111,944

Movement in treasury shares was as follows:

	<i>No. of shares</i>	
	<i>2009</i>	<i>2008</i>
Balance as at 1 January	<b>94,867,500</b>	-
Purchases	<b>32,125,000</b>	126,000,000
Bonus issue	<b>9,486,750</b>	-
Sales	<b>(91,737,756)</b>	(31,132,500)
Balance as at 31 December	<b><u>44,741,494</u></b>	<b><u>94,867,500</u></b>

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

# National Bank of Kuwait Group

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 18 SHARE CAPITAL AND RESERVES (continued)

e) Other reserves

	KD 000's						
	General reserve	Retained earnings	Proposed cash dividend	Foreign currency translation reserve	Cumulative changes in fair values	Share based payment reserve	Total other reserves
At 1 January 2008	117,058	349,766	184,308	(4,203)	31,037	993	678,959
Total comprehensive income	-	255,349	-	(4,805)	(39,123)	-	211,421
Transfer to statutory reserve (Note 18b)	-	(12,287)	-	-	-	-	(12,287)
Dividends paid	-	-	(184,308)	-	-	-	(184,308)
Proposed bonus shares (Note 19)	-	(27,032)	-	-	-	-	(27,032)
Proposed cash dividend 45 fils per share (Note 19)	-	(117,374)	117,374	-	-	-	-
Share based payment (Note 20)	-	-	-	-	-	1,972	1,972
At 31 December 2008	117,058	448,422	117,374	(9,008)	(8,086)	2,965	<b>668,725</b>
Total comprehensive income	-	265,220	-	24,272	19,539	-	<b>309,031</b>
Transfer to statutory reserve (Note 18b)	-	(13,516)	-	-	-	-	<b>(13,516)</b>
Dividends paid	-	-	(117,374)	-	-	-	<b>(117,374)</b>
Proposed bonus shares (Note 19)	-	(29,735)	-	-	-	-	<b>(29,735)</b>
Proposed cash dividend 40fils per share (Note 19)	-	(117,150)	117,150	-	-	-	-
Share based payment (Note 20)	-	-	-	-	-	2,584	<b>2,584</b>
At 31 December 2009	<b>117,058</b>	<b>553,241</b>	<b>117,150</b>	<b>15,264</b>	<b>11,453</b>	<b>5,549</b>	<b>819,715</b>

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**18 SHARE CAPITAL AND RESERVES (continued)**

## e) Other reserves (continued)

The general reserve was created in accordance with Bank's Articles of Association and is freely distributable.

The foreign currency translation reserve includes the exchange differences on conversion of results and financial position of all group entities including goodwill, intangible assets and any fair value adjustments to the carrying value of assets and liabilities from their functional currency to the presentation currency.

**19 PROPOSED DIVIDEND**

The board of directors recommended distribution of a cash dividend of 40 fils per share (2008: 45 fils per share) and bonus shares of 10% (2008: 10%) on outstanding shares as at 31 December 2009. The proposed dividend, if approved, shall be payable to the shareholders registered in the Bank's records as of the date of the annual general assembly meeting.

**20 SHARE BASED PAYMENT**

The Bank operates an equity settled share based compensation plan and granted share options to its senior executives. These options will vest if the employees remain in service for a period of three years from the grant date and the employees can exercise the options within one year from the vesting date. If the exercise price is not paid within one year from date of vesting, the options vested will be cancelled. The exercise price of the granted options is equal to 100 fils per share.

The fair value of options granted during the year as determined using the Black-Scholes valuation model was KD 0.957 (2008: KD 1.812). The significant inputs into the model were a share price of KD 1.180 (2008: KD 2.060) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 39.4% (2008: 26%), option life disclosed above and annual risk free interest rate of 3.75% (2008: 6.375%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The following table shows the movement in number of share options during the year:

	<u>2009</u>	<u>2008</u>
	<u>No. of share options</u>	<u>No. of share options</u>
Outstanding at 1 January	3,742,422	1,711,380
Granted during the year	3,189,990	2,433,712
Lapsed during the year	(579,155)	(402,670)
Outstanding at 31 December	<u>6,353,257</u>	<u>3,742,422</u>

The expense accrued on account of share based compensation plans for the year amounts to KD 2,584 thousand (2008: KD 1,972 thousand) and is included under staff expenses.

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**21 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of investment securities, quoted in an active market (stock exchanges and actively traded funds) amounts to KD 401,227 thousand for debt securities and KD 144,414 thousand for equities and other investments. Investment securities, which are tradable over the counter and / or are valued by using a significant input of observable market data amount to KD 468,362 thousand for debt securities and KD 10,171 thousand for equities and other investments. Debt securities under this category mainly include sovereign debt instruments and corporate bonds in the MENA region. Investment securities, for which a significant input of the valuation is not based on observable market data amounts to KD 51,039 thousand for debt securities and KD 54,039 thousand for equities and other investments.

Other financial assets and liabilities are carried at amortized cost and the carrying values are not significantly different from their fair values as these assets and liabilities are of short term maturities or are repriced immediately based on market movement in interest rates.

**22 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The table below summarises the maturity profile of Group's assets and liabilities based on expectations of management and reflects the way the Group manages liquidity risk.

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>2009</b>				
<b>Assets</b>				
Cash and deposits with banks	2,308,094	37,655	-	2,345,749
Central Bank of Kuwait bonds	246,697	34,792	-	281,489
Kuwait Government treasury bills	32,477	-	-	32,477
Kuwait Government treasury bonds	63,843	247,204	62,155	373,202
Loans and advances to customers	3,517,945	1,363,061	2,936,104	7,817,110
Held to maturity investments	11,886	11,578	12,079	35,543
Available for sale investments	495,607	116,035	488,760	1,100,402
Investments carried at fair value through statement of income	35,101	-	-	35,101
Investment in associates	-	-	387,815	387,815
Land, premises and equipment	-	-	152,929	152,929
Goodwill and other intangible assets	-	-	249,556	249,556
Other assets	76,999	15,186	3,698	95,883
	<u>6,788,649</u>	<u>1,825,511</u>	<u>4,293,096</u>	<u>12,907,256</u>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	3,576,136	666,201	26,772	4,269,109
Customer deposits	6,052,330	459,718	88,195	6,600,243
Other liabilities	158,095	-	41,146	199,241
Share capital and reserves	-	-	1,708,132	1,708,132
Proposed cash dividend	117,150	-	-	117,150
Non-controlling interests	-	-	13,381	13,381
	<u>9,903,711</u>	<u>1,125,919</u>	<u>1,877,626</u>	<u>12,907,256</u>
Net liquidity gap	<u>(3,115,062)</u>	<u>699,592</u>	<u>2,415,470</u>	

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**22 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

	<i>Up to 3 months</i>	<i>3 to 12 months</i>	<i>Over 1 year</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>2008</b>				
<b>Assets</b>				
Cash and deposits with banks	2,254,639	306,122	-	2,560,761
Central Bank of Kuwait bonds	156,897	-	-	156,897
Kuwait Government treasury bonds	58,314	356,782	62,045	477,141
Loans and advances to customers	3,444,725	816,794	2,693,886	6,955,405
Held to maturity investments	41,926	52,874	3,194	97,994
Available for sale investments	415,277	189,625	447,569	1,052,471
Investments carried at fair value through statement of income	49,831	-	-	49,831
Investment in associates	-	-	127,621	127,621
Land, premises and equipment	-	-	133,292	133,292
Goodwill and other intangible assets	-	-	243,275	243,275
Other assets	95,300	19,822	3,512	118,634
	<u>6,516,909</u>	<u>1,742,019</u>	<u>3,714,394</u>	<u>11,973,322</u>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	4,188,132	392,858	41,263	4,622,253
Customer deposits	5,011,883	451,526	81,840	5,545,249
Other liabilities	190,985	-	46,269	237,254
Share capital and reserves	-	-	1,440,167	1,440,167
Proposed cash dividend	117,374	-	-	117,374
Non-controlling interests	-	-	11,025	11,025
	<u>9,508,374</u>	<u>844,384</u>	<u>1,620,564</u>	<u>11,973,322</u>
Net liquidity gap	<u>(2,991,465)</u>	<u>897,635</u>	<u>2,093,830</u>	

**23 SUBSIDIARIES**

Principal operating subsidiaries:

<i>Name of entities</i>	<i>Country of incorporation</i>	<i>Principal business</i>	<i>% Capital held</i>	
			<i>2009</i>	<i>2008</i>
National Bank of Kuwait (International) plc	United Kingdom	Banking	<b>100.0</b>	100.0
NBK Investment Management Limited	United Kingdom	Investment management	<b>100.0</b>	60.0
NBK Banque Privee (Suisse) S.A.	Switzerland	Investment management	<b>100.0</b>	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	<b>85.5</b>	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment management	<b>100.0</b>	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	<b>75.0</b>	75.0
Watani Investment Company K.S.C.(Closed)	Kuwait	Investment company	<b>96.8</b>	96.8
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	<b>86.7</b>	86.7
Al Watany Bank of Egypt S.A.E.	Egypt	Banking	<b>98.5</b>	98.5

At 31 December 2009, 38.14 % (2008: 38.14%) of the Group's interest in National Bank of Kuwait (Lebanon) S.A.L. was held by an intermediate holding company, NBK Holding (Liban) S.A.L.

During the year the Bank acquired the remaining 40% share capital of NBK Investment Management Limited for a purchase consideration of KD 660 thousands.

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The Bank also holds voting capital in certain special purpose entities which have been established to manage funds and fiduciary assets on behalf of the Bank's customers. The Bank does not have a beneficial interest in the underlying assets of these companies. Information about the Group's fund management activities is set out in note 32.

**24 COMMITMENTS AND CONTINGENT LIABILITIES**

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	<b>81,760</b>	69,193
Letters of credit	<b>450,898</b>	525,069
Guarantees	<b>1,473,268</b>	1,558,140
	<b><u>2,005,926</u></b>	<u>2,152,402</u>

Irrevocable commitments to extend credit amounts to KD 113,286 thousands (31 December 2008: KD 82,468 thousands). This represents commitments to extend credit which is irrevocable over the life of the facility or is revocable only in response to a material adverse change.

In the normal course of business the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures.

These credit commitments do not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

**25 DERIVATIVE FINANCIAL INSTRUMENTS**

Derivatives are financial instruments that derive their value by referring to interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Derivatives are carried at fair value and shown in the statement of financial position net of any internal arbitrage deals. Positive fair value represents the cost of replacing all transactions with a fair value in the Groups' favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the statement of financial position date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. Negative fair value represents the cost to the Groups' counter parties of replacing all their transactions with the Group.

The Group deals in interest rate swaps to manage its interest rate risk on interest bearing asset and liabilities or to provide interest rate risk management solutions to customers. Similarly the Group deals in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows.

**Derivatives held as fair value hedges**

Derivatives used to hedge the change in fair value of its financial assets and liabilities and which qualify as effective hedging instruments are classified as 'Derivatives held as fair value hedges'.

**Derivatives held for trading**

Derivative transactions for customers and derivatives used for hedging purpose but which do not meet the qualifying criteria for hedge accounting are classified as 'Derivatives held for trading'. The risk exposures on account of derivative transactions for customers are covered by entering in to similar transactions with counter parties or by other risk mitigating transactions.

**Interest rate swaps**

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time.

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**25 DERIVATIVE FINANCIAL INSTRUMENTS (continued)****Forward rate agreements**

Forward rate agreements are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future.

**Forward foreign exchange**

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a future date.

The fair value of derivative instruments included in the financial records, together with their notional amounts as at 31 December is summarised as follows:

	2009			2008		
	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional KD 000's</i>	<i>Positive fair value KD 000's</i>	<i>Negative fair value KD 000's</i>	<i>Notional KD 000's</i>
Derivatives held as fair value hedges:						
- Interest rate swaps	318	10,712	165,565	1,187	12,562	398,712
Derivatives held for trading						
- Interest rate swaps	2,168	1,262	112,202	5,939	2,126	322,201
- Forward foreign exchange	13,320	7,887	1,144,725	24,649	26,560	1,335,012
	<u>15,806</u>	<u>19,861</u>	<u>1,422,492</u>	<u>31,775</u>	<u>41,248</u>	<u>2,055,925</u>

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**26 RELATED PARTY TRANSACTIONS**

Certain related parties (shareholders, directors and officers of the Bank, companies which they control or over which they exert significant influence, and entities associated with the Group) were customers of the Bank and its subsidiaries 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.

In accordance with Central Bank of Kuwait regulations regarding lending to Board Members and their related parties such lending is secured by tangible collateral.

Details of the interests of Board Members and Executive Officers are as follows:

	<i>Number of Board Members or Executive Officers</i>		<i>Number of related parties</i>		<i>2009</i>	<i>2008</i>
	<i>2009</i>	<i>2008</i>	<i>2009</i>	<i>2008</i>	<i>KD 000's</i>	<i>KD 000's</i>
<b>Board Members</b>						
Loans (secured)	<b>6</b>	6	<b>16</b>	24	<b>219,300</b>	350,590
Contingent liabilities	<b>2</b>	2	<b>21</b>	23	<b>104,014</b>	105,534
Credit cards	<b>5</b>	6	<b>4</b>	2	<b>93</b>	28
Deposits	<b>8</b>	8	<b>25</b>	15	<b>48,874</b>	79,607
Collateral against loans	<b>6</b>	6	<b>16</b>	24	<b>343,842</b>	494,392
Interest and fee income					<b>23,041</b>	39,742
Interest expense					<b>174</b>	1,117
<b>Executive Officers</b>						
Loans	<b>7</b>	6	-	-	<b>646</b>	434
Contingent liabilities	<b>2</b>	3	-	-	<b>15</b>	9
Credit cards	<b>4</b>	7	-	-	<b>43</b>	18
Deposits	<b>15</b>	11	-	-	<b>1,222</b>	597
Interest and fee income					<b>6</b>	13
Interest expense					<b>19</b>	26
<b>Associates</b>						
Placements					<b>175,742</b>	267,191
Acceptances					<b>45,725</b>	69,000

**27 KEY MANAGEMENT COMPENSATION**

Details of compensation for key management, including Executive Officers, comprise the following:

	<i>2009</i>	<i>2008</i>
	<i>KD 000's</i>	<i>KD 000's</i>
Salaries and other short term benefits	<b>11,746</b>	10,563
Post-employment benefits	<b>714</b>	1,506
Share based compensation	<b>1,890</b>	1,527
	<b>14,350</b>	13,596

## **28 RISK MANAGEMENT**

Risk is inherent in the Group's activities but is managed in a structured, systematic manner through a global risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors with the support of the Management Executive Committee and the Board Audit Committee together with the Group's Risk Management and Internal Audit functions.

The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

In accordance with the Central Bank of Kuwait's directives, the Group has implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non-quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviation are escalated to management for appropriate action.

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Group's credit risks.

The Group's comprehensive risk management framework has specific guidelines that focus on maintaining a diversified portfolio to avoid excessive concentrations of risk.

### **28.1 CREDIT RISK**

Credit risk is the risk that a counterparty will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises in the Group's normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Group's Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the domestic or international credit control divisions pending submission to the appropriate credit committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

In accordance with the instructions of the Central Bank of Kuwait dated 18 December 1996, setting out the rules and regulations regarding the classification of credit facilities, the Group has formed an internal committee comprising competent professional staff and having as its purpose the study and evaluation of the existing credit facilities of each customer of the Group. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level. The committee, which meets regularly throughout the year, also studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

The Group further limits risk through diversification of its assets by geography and industry sector. In addition, all credit facilities are continually monitored based on a periodical review of the credit performance and account rating.

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**28 RISK MANAGEMENT (continued)****28.1. 1 MAXIMUM EXPOSURE TO CREDIT RISK**

An analysis of the Group's financial assets before and after taking account of collateral held or other credit enhancements, is as follows:-

	<u>2009</u>		<u>2008</u>	
	<i>Gross exposure KD 000's</i>	<i>Net exposure KD 000's</i>	<i>Gross exposure KD 000's</i>	<i>Net Exposure KD 000's</i>
Cash and deposits with banks	2,345,749	2,345,749	2,560,761	2,560,761
Central Bank of Kuwait bonds	281,489	281,489	156,897	156,897
Kuwait Government treasury bills	32,477	32,477	-	-
Kuwait Government treasury bonds	373,202	373,202	477,141	477,141
Loans and advances to customers	7,817,110	5,018,489	6,955,405	4,541,711
Held to maturity investments	35,543	35,543	97,994	97,994
Available for sale investments	920,628	920,628	840,638	840,638
Other assets	95,883	95,883	118,634	118,634
	<u>11,902,081</u>	<u>9,103,460</u>	<u>11,207,470</u>	<u>8,793,776</u>
Contingent liabilities	2,005,926	1,868,609	2,152,402	2,042,755
Commitments	113,286	113,286	82,468	82,468
	<u>14,021,293</u>	<u>11,085,355</u>	<u>13,442,340</u>	<u>10,918,999</u>

For on-balance sheet financial assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

**Collateral and other credit enhancements**

The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and bank guarantees. The revaluation and custody of collaterals are performed independent of the business units.

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**28 RISK MANAGEMENT (continued)****28.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK**

Concentrations of credit risk arise from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

Credit risk can also arise due to a significant concentration of Group's assets to any single counterparty. This risk is managed by diversification of the portfolio. The 20 largest loans outstanding as a percentage of gross loans as at 31 December 2009 is 22 % (2008: 21%).

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

**2009**

<b>Geographic region</b>	<i>Middle East and North Africa</i>	<i>North America</i>	<i>Europe</i>	<i>Asia</i>	<i>Other</i>	<i>Total</i>
	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>	<i>KD 000's</i>
Cash and deposits with banks	<b>1,321,088</b>	<b>663,335</b>	<b>307,336</b>	<b>53,624</b>	<b>366</b>	<b>2,345,749</b>
Central Bank of Kuwait bonds	<b>281,489</b>	-	-	-	-	<b>281,489</b>
Kuwait Government treasury bills	<b>32,477</b>	-	-	-	-	<b>32,477</b>
Kuwait Government treasury bonds	<b>373,202</b>	-	-	-	-	<b>373,202</b>
Loans and advances to customers	<b>7,395,842</b>	<b>35,689</b>	<b>297,965</b>	<b>55,724</b>	<b>31,890</b>	<b>7,817,110</b>
Held to maturity investments	<b>13,536</b>	-	-	<b>22,007</b>	-	<b>35,543</b>
Available for sale investments	<b>671,023</b>	<b>165,873</b>	<b>16,029</b>	<b>67,703</b>	-	<b>920,628</b>
Other assets	<b>89,391</b>	<b>358</b>	<b>4,549</b>	<b>1,215</b>	<b>370</b>	<b>95,883</b>
	<b>10,178,048</b>	<b>865,255</b>	<b>625,879</b>	<b>200,273</b>	<b>32,626</b>	<b>11,902,081</b>
Commitments and contingent liabilities (Note 24)	<b>1,282,484</b>	<b>67,043</b>	<b>303,577</b>	<b>454,864</b>	<b>11,244</b>	<b>2,119,212</b>
	<b>11,460,532</b>	<b>932,298</b>	<b>929,456</b>	<b>655,137</b>	<b>43,870</b>	<b>14,021,293</b>

**28 RISK MANAGEMENT (continued)****28.1. 2 RISK CONCENTRATION OF THE MAXIMUM EXPOSURE TO CREDIT RISK (continued)**

2008

<b>Geographic region</b>	<i>Middle East and North Africa KD 000's</i>	<i>North America KD 000's</i>	<i>Europe KD 000's</i>	<i>Asia KD 000's</i>	<i>Other KD 000's</i>	<i>Total KD 000's</i>
Cash and deposits with banks	1,869,057	386,040	286,041	19,302	321	2,560,761
Central Bank of Kuwait bonds	156,897	-	-	-	-	156,897
Kuwait Government treasury bonds	477,141	-	-	-	-	477,141
Loans and advances to customers	6,505,424	39,281	333,739	52,929	24,032	6,955,405
Held to maturity investments	79,603	576	-	17,815	-	97,994
Available for sale investments	607,677	160,205	21,827	50,929	-	840,638
Other assets	105,901	626	9,862	1,464	781	118,634
	<u>9,801,700</u>	<u>586,728</u>	<u>651,469</u>	<u>142,439</u>	<u>25,134</u>	<u>11,207,470</u>
Commitments and contingent liabilities (Note 24)	<u>1,302,581</u>	<u>81,747</u>	<u>316,580</u>	<u>518,644</u>	<u>15,318</u>	<u>2,234,870</u>
	<u>11,104,281</u>	<u>668,475</u>	<u>968,049</u>	<u>661,083</u>	<u>40,452</u>	<u>13,442,340</u>

The Group's financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

<b>Industry sector</b>	<i>2009 KD 000's</i>	<i>2008 KD 000's</i>
Trading	<b>1,425,062</b>	1,387,878
Manufacturing	<b>814,856</b>	623,176
Banks and other financial institutions	<b>3,770,571</b>	4,043,063
Construction	<b>932,421</b>	721,647
Real Estate	<b>1,453,695</b>	1,191,411
Retail	<b>2,117,957</b>	1,904,066
Government	<b>1,171,476</b>	1,208,123
Other	<b>2,335,255</b>	2,362,976
	<u><b>14,021,293</b></u>	<u>13,442,340</u>

**28 RISK MANAGEMENT (continued)****28.1.3 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS**

In managing its portfolio, the Group utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of asset for statement of financial position lines, based on the Group's credit rating system.

	<i>Neither past due nor impaired</i>		<i>Past due</i>	<i>Total</i> <i>KD 000's</i>
	<i>High</i> <i>KD 000's</i>	<i>Standard</i> <i>KD 000's</i>	<i>or impaired</i> <i>KD 000's</i>	
<b>2009</b>				
Deposits with banks maturing within seven days	417,674	-	-	417,674
Central Bank of Kuwait bonds	281,489	-	-	281,489
Kuwait Government treasury bills	32,477	-	-	32,477
Kuwait Government treasury bonds	373,202	-	-	373,202
Deposits with banks	473,514	249,995	-	723,509
Loans and advances to customers	6,903,537	990,658	219,131	8,113,326
Held to maturity investments	22,719	12,824	-	35,543
Available for sale investments	794,970	125,658	-	920,628
	<u>9,299,582</u>	<u>1,379,135</u>	<u>219,131</u>	<u>10,897,848</u>
<b>2008</b>				
Deposits with banks maturing within seven days	669,419	-	-	669,419
Central Bank of Kuwait bonds	156,897	-	-	156,897
Kuwait Government treasury bonds	477,141	-	-	477,141
Deposits with banks	873,778	288,137	-	1,161,915
Loans and advances to customers	6,258,176	673,485	280,147	7,211,808
Held to maturity investments	94,803	3,191	-	97,994
Available for sale investments	658,140	182,498	-	840,638
	<u>9,188,354</u>	<u>1,147,311</u>	<u>280,147</u>	<u>10,615,812</u>

**28 RISK MANAGEMENT (continued)****28.1.4 AGEING ANALYSIS OF PAST DUE OR IMPAIRED LOANS AND ADVANCES**

	Corporate		Retail		Total	
	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>	<i>Past due and not impaired KD 000's</i>	<i>Past due and impaired KD 000's</i>
<b>2009</b>						
Up to 30 days	6,252	-	49,747	-	55,999	-
31 - 60 days	173	-	9,721	-	9,894	-
61 - 90 days	10,487	-	216	-	10,703	-
91-180 days	-	2	-	11,059	-	11,061
More than 180 days	-	86,182	-	45,292	-	131,474
	<u>16,912</u>	<u>86,184</u>	<u>59,684</u>	<u>56,351</u>	<u>76,596</u>	<u>142,535</u>
<b>2008</b>						
Up to 30 days	9,691	-	51,030	-	60,721	-
31 - 60 days	14,334	-	13,031	-	27,365	-
61 - 90 days	51,434	-	247	-	51,681	-
91-180 days	-	7,855	-	11,643	-	19,498
More than 180 days	-	78,622	-	42,260	-	120,882
	<u>75,459</u>	<u>86,477</u>	<u>64,308</u>	<u>53,903</u>	<u>139,767</u>	<u>140,380</u>

Of the aggregate amount of gross past due or impaired loans and advances to customers, the fair value of collateral that the Group held as at 31 December 2009 was KD 22,701 thousand (2008: KD 101,033 thousand). Loans and advances to customers that would otherwise be past due or impaired whose terms have been renegotiated during the year amounted to KD 8,399 thousand at 31 December 2009 (2008: Nil). Of that amount, KD 8,399 thousand (2008: Nil) was fully secured.

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**28.2 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its financial liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The liquidity profile of financial liabilities reflects the projected cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements. The liquidity profile of financial liabilities and contingent liabilities and commitments at 31 December was as follows:

	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>2009</b>				
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	3,578,859	673,596	27,112	4,279,567
Customer deposits	6,058,879	465,898	99,514	6,624,291
	<u>9,637,738</u>	<u>1,139,494</u>	<u>126,626</u>	<u>10,903,858</u>
<b>Contingent liabilities and commitments</b>				
Contingent liabilities	645,814	649,244	710,868	2,005,926
Irrevocable commitments	5,286	18,934	89,066	113,286
	<u>651,100</u>	<u>668,178</u>	<u>799,934</u>	<u>2,119,212</u>
<b>Derivatives settled on a gross basis</b>				
Contractual amounts payable	806,560	266,642	270	1,073,472
Contractual amounts receivable	819,060	269,007	258	1,088,325
	<u>806,560</u>	<u>266,642</u>	<u>270</u>	<u>1,073,472</u>
	<u>819,060</u>	<u>269,007</u>	<u>258</u>	<u>1,088,325</u>
	<i>Up to 3 months KD 000's</i>	<i>3 to 12 months KD 000's</i>	<i>Over 1 year KD 000's</i>	<i>Total KD 000's</i>
<b>2008</b>				
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	4,195,800	396,415	41,794	4,634,009
Customer deposits	5,019,258	464,594	95,009	5,578,861
	<u>9,215,058</u>	<u>861,009</u>	<u>136,803</u>	<u>10,212,870</u>
<b>Contingent liabilities and commitments</b>				
Contingent liabilities	592,842	715,060	844,500	2,152,402
Irrevocable commitments	5,430	12,634	64,404	82,468
	<u>598,272</u>	<u>727,694</u>	<u>908,904</u>	<u>2,234,870</u>
<b>Derivatives settled on a gross basis</b>				
Contractual amounts payable	878,518	315,318	83,638	1,277,474
Contractual amounts receivable	861,946	321,231	86,482	1,269,659
	<u>878,518</u>	<u>315,318</u>	<u>83,638</u>	<u>1,277,474</u>
	<u>861,946</u>	<u>321,231</u>	<u>86,482</u>	<u>1,269,659</u>

Refer Note 22 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above. The financial liabilities shown in Note 22 exclude future interest payments.

**28.3 MARKET RISK**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

**28.3.1 INTEREST RATE RISK**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and exposures arising on any medium term fixed rate lending or fixed rate borrowing are covered by derivative financial instruments. Furthermore, the reverse cumulative interest rate gap is carefully monitored on a daily basis and adjusted where necessary to reflect changing market conditions.

**Interest rate sensitivity**

Interest rate sensitivity measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This includes the effect of hedging instruments but excludes loan commitments. The sensitivity of equity is the impact arising from changes in interest rate on fair value of available for sale investments. These are not significant for the Group as it has a policy of hedging its available for sale debt instruments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Group's financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Group's profit as follows:

<b>Currency</b>	<b>Movement in Basis points</b>	<b>2009 KD 000's</b>	<b>2008 KD 000's</b>
KWD	+25	<b>2,669</b>	2,289
USD	+25	<b>(766)</b>	(1,455)
EUR	+25	<b>466</b>	79
GBP	+25	<b>(63)</b>	(229)

**28 RISK MANAGEMENT (continued)****28.3.2 FOREIGN EXCHANGE RISK**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established by the Board of Directors on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the treasury front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on profit and equity of an assumed 5% strengthening in value of the currency rate against the Kuwaiti Dinar from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, whereas a positive amount reflects a net potential increase.

Currency	% Change in currency rate	2009	2008		
		Effect on profit KD 000's	Effect on equity KD 000's	Effect on profit KD 000's	Effect on equity KD 000's
USD	+5	3,642	-	(3,641)	-
GBP	+5	59	-	1,465	-
EUR	+5	(2,810)	-	230	-
Other	+5	(752)	23,125	2,442	21,623

**28.3.3 EQUITY PRICE RISK**

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of equity investments. The Group manages the risk through diversification of investments in terms of geographic distribution and industry concentration. The effect of equity price risk on profit of the Group is not significant as its exposure to equity securities classified as investments carried at fair value through statement of income is minimum. The effect on equity (as a result of a change in the fair value of equity instruments held as available for sale) at the year end due to an assumed 5% change in market indices, with all other variables held constant, is as follows:

Market indices	% Change in equity price	2009	2008
		Effect on equity KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	864	876
Abu Dhabi securities market	+5	-	23
Doha securities market	+5	457	424
Saudi stock exchange	+5	178	113

**28 RISK MANAGEMENT (continued)****28.4 OPERATIONAL RISK**

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group 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 Group. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

The Operational Risk function of the Group is 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.

**29 CAPITAL**

A key Group objective is to maximise shareholder value with optimal levels of risk and to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait. The Group's regulatory capital and capital adequacy ratios are shown below:

	<i>2009</i> <i>KD 000's</i>	<i>2008</i> <i>KD 000's</i>
Risk Weighted Assets	<b>8,206,258</b>	8,087,104
Capital required	<b>984,752</b>	970,453
Capital available		
Tier 1 capital	<b>1,192,634</b>	1,188,477
Tier 2 capital	<b>41,148</b>	48,762
Total capital	<b>1,233,782</b>	1,237,239
Tier 1 capital adequacy ratio	<b>14.5%</b>	14.7%
Total capital adequacy ratio	<b>15.0%</b>	15.3%

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/BS/184/2005 dated 21 December 2005 are included under the 'Risk Management' section of the annual report.

**30 MANAGEMENT OF PURCHASED DEBTS**

In accordance with Decree 32/92 and Law 41/93 in respect of the financial and banking sector, the Bank is required to manage the purchased debts without remuneration in conformity with the terms of the debt purchase agreement.

**31 BOARD OF DIRECTORS REMUNERATION**

The Board of Directors does not receive any emoluments in the form of fees, salaries or bonuses for their services rendered to the Bank.

**32 FUNDS UNDER MANAGEMENT**

The Group manages a number of funds, some of which are managed in association with other professional fund managers. The funds have no recourse to the general assets of the Group and the Group has no recourse to the assets of the funds. Accordingly the assets of these funds are not included in the consolidated financial statements. As at 31 December 2009, funds under management were KD 2,416 million (2008: KD 2,834 million).