

# Financial Statements and Auditors' Report

For the year ended 31 December 2008

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# Board of Directors' Report

The Directors have pleasure in presenting their report together with the audited 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 2008.

## Overseas Operations

2008 saw the first full year of Al Watany Bank of Egypt S.A.E. being consolidated into the financial results of the Group. Considerable effort has been spent on integrating the operations and systems to meet Group standards and the Board is very encouraged by the progress made to date. The Bank continues to look at possible acquisition opportunities within the region and as part of its ongoing expansion plan, it acquired a 40% interest in Turkish Bank A.S. during this year.

The contribution from overseas operations continues to increase and accounted for KD 66.8 million of the net profit for the year, an increase of 125% from the 2007 figure of KD 29.6 million. Total international assets at 2008 year end amounted to KD 4,249.8 million compared to KD 4,581.4 million for 2007 year end.

## 2008 Financial Performance

In response to the very difficult market conditions and the significant falls in investment markets in the final quarter of 2008, the Bank considered it prudent to increase the level of general provisions for credit losses and investment impairments. Arising from these actions the Group reported a net profit after minority interests of KD 255.3 million, compared to the reported net profit of KD 273.6 million for 2007.

Net interest income was KD 366.8 million, a 29% increase from the 2007 level of KD 283.6 million which reflects volume growth, changes of product mix and greater liquidity management techniques which helped reduce funding costs during 2008.

Non interest income for 2008 amounted to KD 141.7 million compared to KD 140.8 million for 2007 despite the fall out from the financial crisis across the banking industry. Fees and commissions increased to KD 101.4 million in 2008 from KD 81.2 million in 2007 reflecting strong increases from different business lines and contributions from overseas operations. Investment securities income fell from a profit of KD 22.5 million in 2007 to a loss of KD 2.1 million in 2008 as a result of falling equity prices throughout the Middle East stock markets. Net gains from dealing in foreign currencies showed an 11.6% increase to KD 29.5 million in 2008 compared to KD 26.5 million in 2007 as a result of higher trading volumes.

Operating expenses increased by 40% to KD 158.9 million in 2008 compared to KD 113.1 million in 2007. This was due to higher staff expenses and other costs in part as a result of the consolidation of Al Watany Bank of Egypt's results into the financials of the Group for the full year in 2008. The operating expenses also include an amount of KD 4.4 million in respect of the amortization of the intangible assets arising from the acquisition of Al Watany Bank. Despite the increase in costs, the cost to income ratio remains a healthy 31.2%.

Given the prevailing uncertainties in global business conditions, the Bank increased its level of judgemental general provisions. Total provisions for credit losses amounted to KD 58.6 million in 2008 compared to KD 23.8 million for 2007. In the light of difficult investment market conditions the Bank felt it prudent to make an impairment provision of KD 22.2 million against its investment portfolio.

## 2008 Balance Sheet

Total assets of the Group were KD 11,973.3 million at the end of 2008, an increase of 4% from KD 11,539.4 million at the end of 2007. Loans and advances increased by 17% to KD 6,955.4 million at 2008 year end. Investment securities increased by 37% to KD 1,200.3 million, this growth was in high grade government bonds.

The Group's general provision relating to on-balance sheet credit facilities increased to KD 140.7 million from KD 100.4 million in 2007 while specific provisions were KD 115.7 million at 2008 year end compared to KD 99.4 million at 2007 year end. The Group operates a conservative credit policy with a balanced diversification across all business sectors and geographical areas. Loan collateral mixes and values are continually monitored to ensure that the Group's security is maintained at all times.

The Group has a strong liquidity position with cash, short term funds, Central Bank of Kuwait bonds and Kuwait Government treasury bonds amounting to KD 2,032.9 million at 2008 year end. Deposits with banks and financial institutions amounted to KD 1,161.9 million at 2008 year end.

Customer deposits increased to KD 5,545.2 million at 2008 year end compared to KD 5,506.5 million for 2007. The Group benefits from a loyal Kuwaiti consumer base whose deposits are a continuing source of stable funding which can be increased to meet loan growth when needed. Due to banks and financial institutions increased by 12.4% to KD 4,622.3 million at 2008 year end compared to KD 4,112.9 million at 2007 year end.

Cash and non-cash credit facilities provided by the Bank to members of the Board of Directors and to related parties amounted to KD 456.2 million at 2008 year end against a collateral of KD 494.4 million. Deposits of Board members and related parties were KD 79.6 million. Loans and facilities to the Bank's executive management amounted to KD 461 thousand while deposits of the Bank's executive management amounted to KD 597 thousand.

#### Equity Attributable to the Shareholders of the Bank

Total equity, attributable to the shareholders of the Bank after deducting the proposed cash dividend of KD 117.4 million amounted to KD 1,440.2 million at the end of 2008 from KD 1,501.6 million at the end of 2007. The Group purchased KD 153.8 million of treasury shares during the year which is reflected as a deduction from total share capital.

The Basel II capital adequacy ratio at the 2008 year end was 15.3% compared to the minimum 12% prescribed by the Central Bank of Kuwait.

#### Bonus Shares, Dividends and Proposed Appropriations

The net profit for the year was principally allocated as follows:

1. KD 117.4 million to the dividend account for the distribution of a cash dividend of 45 fils per share (75 fils in 2007) subject to the approval of shareholders at the annual general meeting.
2. KD 27 million to the share capital account to cover the issuance of bonus shares equal to 10% of share capital at the end of 2008 (equivalent to 270,317,950 shares with a nominal value of 100 fils per share) subject to the approval of shareholders at the annual general meeting.
3. KD 12.3 million to the statutory reserve account to increase the balance to the minimum requirement of 50% of share capital.
4. KD 98.6 million to retained earnings.

#### Important Financial Indicators.

	2008	2007	2006
Total assets (KD'm)	11,973.3	11,539.4	7,898.3
Loans and advances to customers (KD'm)	6,955.4	5,920.3	4,309.8
Customer deposits (KD'm)	5,545.2	5,506.5	4,378.5
Total operating income (KD'm)	508.5	424.4	395.2
Profit attributable to shareholders of the parent Bank (KD'm)	255.3	273.6	253.2

# Consolidated Statement of Income

For the year ended 31 December 2008

	Notes	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
Interest income	4	684,470	608,333	2,480,413	2,204,504
Interest expense	5	317,715	324,773	1,151,350	1,176,927
<b>Net interest income</b>		<b>366,755</b>	<b>283,560</b>	<b>1,329,063</b>	<b>1,027,577</b>
Net fees and commissions	6	101,412	81,179	367,501	294,180
Net (losses)/gains from investment securities	7	(2,148)	22,520	(7,784)	81,609
Net gains from dealing in foreign currencies		29,540	26,459	107,048	95,883
Dividend income		4,561	3,326	16,529	12,053
Share of profit of associates		7,396	4,387	26,802	15,898
Other operating income		958	2,938	3,472	10,647
<b>Net operating income</b>		<b>508,474</b>	<b>424,369</b>	<b>1,842,631</b>	<b>1,537,847</b>
Staff expenses		91,927	67,547	333,129	244,780
Other administrative expenses		55,878	40,759	202,493	147,704
Depreciation of premises and equipment		6,701	4,793	24,284	17,369
Amortisation of intangible assets	14	4,390	-	15,909	-
<b>Operating expenses</b>		<b>158,896</b>	<b>113,099</b>	<b>575,815</b>	<b>409,853</b>
<b>Operating profit before provision for credit losses and impairment losses</b>		<b>349,578</b>	<b>311,270</b>	<b>1,266,816</b>	<b>1,127,994</b>
Provision charge for credit losses - specific	11	17,104	8,509	61,982	30,835
Provision charge for credit losses - general	11	41,470	15,316	150,281	55,503
Impairment losses for investment securities	12	22,182	-	80,384	-
<b>Operating profit before taxation</b>		<b>268,822</b>	<b>287,445</b>	<b>974,169</b>	<b>1,041,656</b>
Taxation	8	11,245	12,256	40,750	44,414
<b>Profit for the year</b>		<b>257,577</b>	<b>275,189</b>	<b>933,419</b>	<b>997,242</b>
Attributable to					
Shareholders of the parent Bank		255,349	273,572	925,345	991,382
Minority interests		2,228	1,617	8,074	5,860
		<b>257,577</b>	<b>275,189</b>	<b>933,419</b>	<b>997,242</b>
<b>Basic and diluted earnings per share attributable to shareholders of the parent Bank</b>	9	<b>95 fils</b>	<b>112 fils</b>	<b>35 cents</b>	<b>41 cents</b>

# Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
<b>Assets</b>					
Cash and short term funds	10	1,398,846	1,778,152	5,069,201	6,443,747
Central Bank of Kuwait bonds	12	156,897	227,162	568,570	823,200
Kuwait Government treasury bonds	12	477,141	338,366	1,729,085	1,226,186
Deposits with banks and other financial institutions		1,161,915	1,841,583	4,210,600	6,673,611
Loans and advances to customers	11	6,955,405	5,920,308	25,205,309	21,454,278
Investment securities	12	1,200,296	878,465	4,349,687	3,183,421
Investment in associates	13	127,621	74,082	462,479	268,462
Land, premises and equipment		133,292	104,876	483,029	380,054
Goodwill and other intangible assets	14	243,275	244,988	881,591	887,798
Other assets	15	118,634	131,439	429,911	476,315
<b>Total assets</b>		<b>11,973,322</b>	<b>11,539,421</b>	<b>43,389,462</b>	<b>41,817,072</b>
<b>Liabilities</b>					
Due to banks and other financial institutions		4,622,253	4,112,873	16,750,328	14,904,414
Customer deposits		5,545,249	5,506,510	20,095,122	19,954,738
Other liabilities	16	237,254	225,130	859,772	815,836
<b>Total liabilities</b>		<b>10,404,756</b>	<b>9,844,513</b>	<b>37,705,222</b>	<b>35,674,988</b>
<b>Equity</b>					
<b>Equity attributable to shareholders of the parent Bank</b>					
Share capital	17	270,318	245,744	979,590	890,538
Proposed bonus shares	18	27,032	24,574	97,960	89,052
Statutory reserve	17	135,159	122,872	489,795	445,269
Share premium account	17	569,006	569,006	2,061,989	2,061,989
Treasury shares	17	(153,821)	-	(557,423)	-
Treasury share reserve	17	41,122	44,710	149,020	162,022
General reserve	17	117,058	117,058	424,200	424,200
Retained earnings	17	448,422	349,766	1,625,012	1,267,498
Foreign currency translation reserve	17	(9,008)	(4,203)	(32,644)	(15,231)
Cumulative changes in fair values	17	(8,086)	31,037	(29,302)	112,473
Share based payment reserve	17	2,965	993	10,745	3,599
<b>Total share capital and reserves</b>		<b>1,440,167</b>	<b>1,501,557</b>	<b>5,218,942</b>	<b>5,441,409</b>
Proposed cash dividend	18	117,374	184,308	425,345	667,904
		<b>1,557,541</b>	<b>1,685,865</b>	<b>5,644,287</b>	<b>6,109,313</b>
Minority interests		11,025	9,043	39,953	32,771
<b>Total equity</b>		<b>1,568,566</b>	<b>1,694,908</b>	<b>5,684,240</b>	<b>6,142,084</b>
<b>Total liabilities and equity</b>		<b>11,973,322</b>	<b>11,539,421</b>	<b>43,389,462</b>	<b>41,817,072</b>

Mohammed Abdul Rahman Al-Bahar  
Chairman

Nasser Musaed Abdullah Al Sayer  
Vice Chairman

Ibrahim Shucri Dabdoub  
Group Chief Executive Officer

# Consolidated Statement of Cash Flows

For the year ended 31 December 2008

	Notes	2008 KD 000's	2007 KD 000's	2008 USD 000's	2007 USD 000's
<b>Operating activities</b>					
Profit for the year		257,577	275,189	933,419	997,242
Adjustments :					
Dividend income		(4,561)	(3,326)	(16,529)	(12,053)
Net losses/(gains) from investment securities	7	2,148	(22,520)	7,784	(81,609)
Share of profit of associates		(7,396)	(4,387)	(26,802)	(15,898)
Depreciation of premises and equipment		6,701	4,793	24,284	17,369
Amortisation of intangible assets		4,390	-	15,909	-
Provision charge for credit losses		58,574	23,825	212,263	86,338
Impairment losses for investment securities		22,182	-	80,384	-
Share based payment reserve		1,972	561	7,146	2,034
Taxation	8	11,245	12,256	40,750	44,414
Operating profit before changes in operating assets and liabilities		<b>352,832</b>	<b>286,391</b>	<b>1,278,608</b>	<b>1,037,837</b>
Changes in operating assets and liabilities:					
Central Bank of Kuwait bonds		70,265	(137,814)	254,630	(499,417)
Kuwait Government treasury bonds		(138,775)	252,304	(502,899)	914,311
Deposits with banks and other financial institutions		679,668	(547,584)	2,463,012	(1,984,359)
Loans and advances to customers		(1,093,598)	(1,271,269)	(3,963,030)	(4,606,882)
Kuwait Government debt bonds		-	14,651	-	53,093
Other assets		12,805	(40,252)	46,403	(145,867)
Due to banks and other financial institutions		509,380	1,692,677	1,845,914	6,133,999
Customer deposits		38,739	667,479	140,384	2,418,840
Other liabilities		10,505	35,650	38,069	129,190
Tax paid		(11,700)	(11,862)	(42,399)	(42,986)
Net cash from operating activities		<b>430,121</b>	<b>940,371</b>	<b>1,558,692</b>	<b>3,407,759</b>
<b>Investing activities</b>					
Purchase of investment securities		(2,058,035)	(946,809)	(7,457,999)	(3,431,089)
Sale/redemption of investment securities		1,676,002	840,133	6,073,571	3,044,512
Dividend income		4,561	3,326	16,529	12,053
Increase in investment holding in subsidiaries		(1,774)	(185,263)	(6,429)	(671,364)
Investment in associates		(52,838)	(40,278)	(191,477)	(145,961)
Dividend from associates		4,096	1,440	14,843	5,218
Proceeds from sale of land, premises and equipment		441	310	1,598	1,123
Acquisition of land, premises and equipment		(35,558)	(13,765)	(128,857)	(49,882)
Net cash used in investing activities		<b>(463,105)</b>	<b>(340,906)</b>	<b>(1,678,221)</b>	<b>(1,235,390)</b>
<b>Financing activities</b>					
Proceeds from issuance of rights shares		-	409,574	-	1,484,232
Dividends paid		(184,308)	(142,170)	(667,904)	(515,202)
Sale of treasury shares		51,445	200,260	186,429	725,711
Purchase of treasury shares		(208,854)	(131,531)	(756,854)	(476,648)
Net cash (used in) / from financing activities		<b>(341,717)</b>	<b>336,133</b>	<b>(1,238,329)</b>	<b>1,218,093</b>
<b>(Decrease) / increase in cash and short term funds</b>		<b>(374,701)</b>	<b>935,598</b>	<b>(1,357,858)</b>	<b>3,390,462</b>
Foreign currency translation		(4,605)	(3,064)	(16,688)	(11,103)
Cash and short term funds at the beginning of the year		1,778,152	845,618	6,443,747	3,064,388
<b>Cash and short term funds at the end of the year</b>	<b>10</b>	<b>1,398,846</b>	<b>1,778,152</b>	<b>5,069,201</b>	<b>6,443,747</b>

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Equity attributable to shareholders of the parent Bank							KD 000's		
	Share capital	Proposed bonus shares	Statutory reserve	Share premium account	Treasury shares	Treasury share reserve	Other reserves (Note 17)	Total	Minority interests	Total
At 31 December 2006	195,035	9,751	97,517	200,390	(23,852)	-	580,896	1,059,737	6,185	<b>1,065,922</b>
Net unrealised gains on available for sale investments	-	-	-	-	-	-	37,829	37,829	25	<b>37,854</b>
Net unrealised gains on available for sale investments - Associates	-	-	-	-	-	-	531	531	-	<b>531</b>
Net realised gains transferred to statement of income on disposal	-	-	-	-	-	-	(19,587)	(19,587)	-	<b>(19,587)</b>
Foreign currency translation	-	-	-	-	-	-	(2,911)	(2,911)	(153)	<b>(3,064)</b>
Total income and expense directly recognised in equity	-	-	-	-	-	-	<b>15,862</b>	<b>15,862</b>	<b>(128)</b>	<b>15,734</b>
Profit for the year	-	-	-	-	-	-	273,572	273,572	1,617	<b>275,189</b>
Total income and expense recognised for the year	-	-	-	-	-	-	<b>289,434</b>	<b>289,434</b>	<b>1,489</b>	<b>290,923</b>
Transfer to statutory reserve	-	-	25,355	-	-	-	(25,355)	-	-	-
Issue of bonus shares	9,751	(9,751)	-	-	-	-	-	-	-	-
Issue of rights shares	40,958	-	-	368,616	-	-	-	409,574	-	<b>409,574</b>
Purchase of treasury shares	-	-	-	-	(131,531)	-	-	(131,531)	-	<b>(131,531)</b>
Sale of treasury shares	-	-	-	-	155,383	-	-	155,383	-	<b>155,383</b>
Profit on sale of treasury shares	-	-	-	-	-	44,710	-	44,710	-	<b>44,710</b>
Prior year loss on sale of treasury shares	-	-	-	-	-	-	167	167	-	<b>167</b>
Dividends paid	-	-	-	-	-	-	(142,170)	(142,170)	-	<b>(142,170)</b>
Proposed bonus shares	-	24,574	-	-	-	-	(24,574)	-	-	-
Share based payment (Note 19)	-	-	-	-	-	-	561	561	(64)	<b>497</b>
Acquired subsidiaries	-	-	-	-	-	-	-	-	1,433	<b>1,433</b>
<b>At 31 December 2007</b>	<b>245,744</b>	<b>24,574</b>	<b>122,872</b>	<b>569,006</b>	<b>-</b>	<b>44,710</b>	<b>678,959</b>	<b>1,685,865</b>	<b>9,043</b>	<b>1,694,908</b>
At 31 December 2007	245,744	24,574	122,872	569,006	-	44,710	678,959	1,685,865	9,043	<b>1,694,908</b>
Net unrealised losses on available for sale investments	-	-	-	-	-	-	(15,794)	(15,794)	(112)	<b>(15,906)</b>
Net unrealised losses on available for sale investments - Associates	-	-	-	-	-	-	(3,389)	(3,389)	-	<b>(3,389)</b>
Net realised gains transferred to statement of income on disposal	-	-	-	-	-	-	(19,940)	(19,940)	(26)	<b>(19,966)</b>
Foreign currency translation	-	-	-	-	-	-	(4,805)	(4,805)	200	<b>(4,605)</b>
Total income and expense directly recognised in equity	-	-	-	-	-	-	<b>(43,928)</b>	<b>(43,928)</b>	<b>62</b>	<b>(43,866)</b>
Profit for the year	-	-	-	-	-	-	255,349	255,349	2,228	<b>257,577</b>
Total income and expense recognised for the year	-	-	-	-	-	-	<b>211,421</b>	<b>211,421</b>	<b>2,290</b>	<b>213,711</b>
Transfer to statutory reserve	-	-	12,287	-	-	-	(12,287)	-	-	-
Issue of bonus shares	24,574	(24,574)	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	(208,854)	-	-	(208,854)	-	<b>(208,854)</b>
Sale of treasury shares	-	-	-	-	55,033	-	-	55,033	-	<b>55,033</b>
Loss on sale of treasury shares	-	-	-	-	-	(3,588)	-	(3,588)	-	<b>(3,588)</b>
Dividends paid	-	-	-	-	-	-	(184,308)	(184,308)	-	<b>(184,308)</b>
Proposed bonus shares	-	27,032	-	-	-	-	(27,032)	-	-	-
Share based payment (Note 19)	-	-	-	-	-	-	1,972	1,972	-	<b>1,972</b>
Movement in minority interests	-	-	-	-	-	-	-	-	(308)	<b>(308)</b>
<b>At 31 December 2008</b>	<b>270,318</b>	<b>27,032</b>	<b>135,159</b>	<b>569,006</b>	<b>(153,821)</b>	<b>41,122</b>	<b>668,725</b>	<b>1,557,541</b>	<b>11,025</b>	<b>1,568,566</b>

The attached notes 1 to 31 form part of these consolidated financial statements

# Notes to the Consolidated Financial Statements

31 December 2008

## 1 INCORPORATION AND REGISTRATION

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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 2008 were authorised for issue in accordance with a resolution of the directors on 21 January 2009. 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

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### 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 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 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.

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

### 2.2 Basis of consolidation

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.

#### 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 minority 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.

#### 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 associate’s 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.

### 2.3 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 balance sheet date. Any gains or losses are taken to the 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 balance sheet 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 balance sheet 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.

### 2.4 Revenue recognition

Interest income and fees which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method, unless collectability is in doubt. 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. Dividend income is recognised when the right to receive payment is established.

### 2.5 Taxation

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates.

### 2.6 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.

### 2.7 Central Bank of Kuwait bonds

Central Bank of Kuwait bonds are initially recognised at cost. Premiums and discounts are amortised on a systematic basis to their maturity. Central Bank of Kuwait bonds are classified as held to maturity investments.

### 2.8 Kuwait Government treasury bonds

Kuwait Government treasury bonds are initially recognised at cost. Premiums and discounts are amortised on a systematic basis to their maturity. Kuwait Government treasury bonds are issued by the Central Bank of Kuwait on behalf of the Ministry of Finance and are classified as held to maturity investments.

# Notes to the Consolidated Financial Statements

31 December 2008

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Deposits with banks and other financial institutions

Deposits with banks and other financial institutions are stated at cost 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.

### 2.10 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 cost 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.

### 2.11 Investment securities

These are classified as follows:

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

## 2.11 Investment securities (continued)

### 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.

## 2.12 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 on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, 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 balance sheet 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.

## 2.13 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 balance sheet 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.

# Notes to the Consolidated Financial Statements

31 December 2008

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 Intangible assets

Intangible assets are initially measured at cost. 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.

### 2.15 Customer deposits

All customer deposits are carried at cost, less amounts repaid and adjustments for effective fair value hedges.

### 2.16 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.

### 2.17 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 balance sheet 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.

### 2.18 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.

## 2.19 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.

## 2.20 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 balance sheet. 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 balance sheet. 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.

## 2.21 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet 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.

## 2.22 Impairment of financial assets

An assessment is made at each balance sheet 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.

# Notes to the Consolidated Financial Statements

31 December 2008

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 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.

### 2.24 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 on the balance sheet 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.

## 2.24 Derivative financial instruments (continued)

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.

## 2.25 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.

## 2.26 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.

## 2.27 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.

### Estimates

The key assumptions concerning estimates made at the balance sheet 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.

# Notes to the Consolidated Financial Statements

31 December 2008

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### 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.

### 2.28 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.

#### Revised IAS 1 – Presentation of Financial Statements (applicable for reporting periods beginning on or after 1 January 2009)

The revised standard introduces changes to the presentation of financial statements and does not affect the recognition, measurement or disclosure of specific transactions. The standard will not affect the financial position or results of the Group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the Group. The changes are not expected to be of any significance to the current level of disclosure in the consolidated financial statements.

#### Revised IFRS 3 – 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 reporting period on or after 1 July 2009)

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.

**IFRS 8 – Operating Segments** (applicable for reporting periods beginning on or after 1 January 2009) The standard relates to disclosure requirements for segmental information and replaces IAS 14 – Segmental Reporting. The new standard intends to disclose segment information in line with information provided to the top management.

### 2.29 Basis of translation

The United States dollar amounts in the consolidated statement of income, consolidated balance sheet and consolidated statement of cash flows represent supplementary information and have been translated at a rate of KD 0.27595 per USD which represents the mid-market rate at 31 December 2008.

### 3 GEOGRAPHIC AND BUSINESS SEGMENTS

Business segments are distinguishable components of the Group that provide products or services subject to risks and returns different from those of other business segments. Geographic segments are engaged in providing products or services within a particular economic environment subject to risks and return different from those of segments operating in other economic environments. Geographic segments are the primary reporting segments.

#### (a) Primary segment - Geographic

The Group operates in two geographic markets, domestic and international. Kuwait is designated as domestic. These markets form the basis on which the Group reports its primary segmental information.

The geographic analysis of net operating income, profit, total assets and total liabilities is based primarily upon the location of the branch or subsidiary responsible for reporting the results. Transactions between segments are conducted at market rates on an arm's length basis.

	Domestic		International		Total	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Net operating income	379,518	365,169	128,956	59,200	508,474	424,369
Profit for the year	190,785	245,549	66,792	29,640	257,577	275,189
Total assets	7,723,525	6,958,030	4,249,797	4,581,391	11,973,322	11,539,421
Total liabilities	5,999,702	5,405,276	4,405,054	4,439,237	10,404,756	9,844,513

#### (b) Secondary segment - Business

Although the management of the Group is based primarily on geographic segments, it operates in two major business segments; Commercial Banking and Investment Banking & Asset Management.

Commercial Banking delivers a variety of products and services to customers which include lending, accepting deposits, trade finance, foreign exchange and custody. Investment Banking provides cross border financial advisory services and other corporate finance services to corporate and institutional clients and Government agencies. Asset Management offers investment services through a diverse range of investment funds to retail customers and portfolio management to high net worth individuals and institutional clients. These services include the management of a variety of mutual funds, some of which are in association with other professional fund managers.

	2008 KD 000's	2007 KD 000's
<b>Net operating income</b>		
Commercial Banking	461,191	388,838
Investment Banking & Asset Management	39,887	31,144
Share of profit of associates	7,396	4,387
	<b>508,474</b>	<b>424,369</b>
<b>Assets</b>		
Commercial Banking	11,645,575	11,196,830
Investment Banking & Asset Management	200,126	268,509
Investment in associates	127,621	74,082
	<b>11,973,322</b>	<b>11,539,421</b>

# Notes to the Consolidated Financial Statements

31 December 2008

## 4 INTEREST INCOME

	2008 KD 000's	2007 KD 000's
Deposits with banks and other financial institutions	121,889	155,773
Loans and advances to customers	500,838	393,579
Investment securities	40,040	23,302
Other	21,703	35,679
	<b>684,470</b>	<b>608,333</b>

Interest income has been reduced by KD 5,677 thousand (2007: KD 30,577 thousand) in the last quarter of the year. The charge primarily represents an adjustment arising from revised estimates of future cash flows, discounted at the original contracted rates of interest from a portfolio of performing loans that have had their terms modified during the year.

## 5 INTEREST EXPENSE

	2008 KD 000's	2007 KD 000's
Due to banks and other financial institutions	112,333	137,477
Customer deposits	205,382	187,296
	<b>317,715</b>	<b>324,773</b>

## 6 NET FEES AND COMMISSIONS

Gross fees and commission income amounted to KD 112,678 thousand (2007: KD 91,542 thousand) and related fees and commission expenses amounted to KD 11,266 thousand (2007: KD 10,363 thousand). Gross fees and commission income includes KD 26,383 thousand relating to trust and fiduciary activities (2007: KD 18,767 thousand).

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

	2008 KD 000's	2007 KD 000's
Realised gains on available for sale investments	19,966	19,587
Net (losses)/gains from investments carried at fair value through statement of income	(22,114)	2,933
	<b>(2,148)</b>	<b>22,520</b>

## 8 TAXATION

	2008 KD 000's	2007 KD 000's
National labour support tax	4,753	6,264
Contribution to Kuwait Foundation for the Advancement of Sciences	2,318	2,477
Taxation on overseas branches and subsidiaries	1,529	3,374
Zakat	2,645	141
	<b>11,245</b>	<b>12,256</b>

## 9 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.

	2008 KD 000's	2007 KD 000's
Profit attributable to shareholders of the parent Bank	255,349	273,572
Weighted average number of shares outstanding during the year (thousands)	2,674,646	2,433,135
Basic and diluted earnings per share	<b>95 fils</b>	<b>112 fils</b>

Earnings per share calculations for 2007 have been adjusted to take account of the bonus shares issued in 2008.

## 10 CASH AND SHORT TERM FUNDS

	2008 KD 000's	2007 KD 000's
Balances with Central Bank of Kuwait	42,352	128,638
Cash on hand and on current account with other banks	608,442	184,374
Money at call	78,633	620,617
Deposits with banks and other financial institutions maturing within seven days	669,419	844,523
	<b>1,398,846</b>	<b>1,778,152</b>

# Notes to the Consolidated Financial Statements

31 December 2008

## 11 LOANS AND ADVANCES TO CUSTOMERS

2008	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Other KD 000's	Total KD 000's
Corporate	4,771,348	40,085	336,244	56,261	35,270	<b>5,239,208</b>
Retail	1,970,883	-	1,698	19	-	<b>1,972,600</b>
Loans and advances	<b>6,742,231</b>	<b>40,085</b>	<b>337,942</b>	<b>56,280</b>	<b>35,270</b>	<b>7,211,808</b>
Provision for credit losses						(256,403)
						<b>6,955,405</b>
2007						
Corporate	3,942,201	36,074	166,795	25,262	22,406	<b>4,192,738</b>
Retail	1,925,586	-	1,731	29	-	<b>1,927,346</b>
Loans and advances	<b>5,867,787</b>	<b>36,074</b>	<b>168,526</b>	<b>25,291</b>	<b>22,406</b>	<b>6,120,084</b>
Provision for credit losses						(199,776)
						<b>5,920,308</b>

Provisions for credit losses on cash facilities are as follows:

	Specific		General		Total	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Balance at beginning of the year	99,372	44,297	100,404	83,574	<b>199,776</b>	<b>127,871</b>
Amounts written off net of exchange movement	(915)	(556)	(959)	(229)	<b>(1,874)</b>	<b>(785)</b>
Provisions in subsidiary acquired	-	47,122	-	3,274	-	<b>50,396</b>
General provisions released during the year	-	-	(12,726)	-	<b>(12,726)</b>	-
Provided during the year	17,229	8,509	53,998	13,785	<b>71,227</b>	<b>22,294</b>
Balance at end of the year	<b>115,686</b>	<b>99,372</b>	<b>140,717</b>	<b>100,404</b>	<b>256,403</b>	<b>199,776</b>

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

	Corporate		Retail		Total	
	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's	2008 KD 000's	2007 KD 000's
Balance at beginning of the year	71,503	24,338	27,869	19,959	<b>99,372</b>	<b>44,297</b>
Amounts written off net of exchange movements	46	(42)	(961)	(514)	<b>(915)</b>	<b>(556)</b>
Provision in subsidiary acquired	-	46,841	-	281	-	<b>47,122</b>
Provided during the year - net of recovery	1,768	366	15,461	8,143	<b>17,229</b>	<b>8,509</b>
Balance at end of the year	<b>73,317</b>	<b>71,503</b>	<b>42,369</b>	<b>27,869</b>	<b>115,686</b>	<b>99,372</b>

The provision charge on specific credit losses of KD 17,104 thousand (2007: KD 8,509 thousand) consists of provision against cash facilities of KD 17,229 thousand (2007: KD 8,509 thousand) and a provision release of KD 125 thousand (2007: Nil) against non cash facilities.

General provision charge of KD 41,470 thousand (2007: KD 15,316 thousand) consists of provision charge of KD 41,272 thousand (2007: KD 13,785 thousand) against cash facilities and KD 198 thousand (2007: KD 1,531 thousand) against non cash facilities.

The available provision on non-cash facilities of KD 23,867 thousand (2007: KD 23,794 thousand) is included under other liabilities (Note 16).

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 12,726 thousand.

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

	Pre-invasion KD 000's	Post-liberation KD 000's	Total KD 000's
<b>2008</b>			
Loans and advances	20,424	119,956	<b>140,380</b>
Provisions	20,299	95,387	<b>115,686</b>
<b>2007</b>			
Loans and advances	19,851	100,183	<b>120,034</b>
Provisions	19,572	79,800	<b>99,372</b>

The fair value of collateral that the Group holds relating to loans individually determined to be impaired at 31 December 2008 amounts to KD 15,728 thousand (2007: KD 12,836 thousand). The collateral consists of cash, securities, bank guarantees and properties.

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## 12 FINANCIAL INVESTMENTS

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

2008	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
<b>Investment securities</b>				
Debt securities – Government (Non Kuwait)	86,228	675,040	-	<b>761,268</b>
Debt securities - Non Government	11,766	165,598	-	<b>177,364</b>
Equities	-	74,193	2,111	<b>76,304</b>
Other investments	-	137,640	47,720	<b>185,360</b>
	<b>97,994</b>	<b>1,052,471</b>	<b>49,831</b>	<b>1,200,296</b>
<b>Central Bank of Kuwait bonds</b>	156,897	-	-	<b>156,897</b>
<b>Kuwait Government treasury bonds</b>	477,141	-	-	<b>477,141</b>
	<b>732,032</b>	<b>1,052,471</b>	<b>49,831</b>	<b>1,834,334</b>

2007	Held to maturity KD 000's	Available for sale KD 000's	Fair value through statement of income KD 000's	Total KD 000's
<b>Investment Securities</b>				
Debt securities – Government (Non Kuwait)	51,890	351,418	205	<b>403,513</b>
Debt securities - Non Government	4,895	188,945	-	<b>193,840</b>
Equities	-	123,791	7,314	<b>131,105</b>
Other investments	-	106,131	43,876	<b>150,007</b>
	<b>56,785</b>	<b>770,285</b>	<b>51,395</b>	<b>878,465</b>
<b>Central Bank of Kuwait bonds</b>	227,162	-	-	<b>227,162</b>
<b>Kuwait Government treasury bonds</b>	338,366	-	-	<b>338,366</b>
	<b>622,313</b>	<b>770,285</b>	<b>51,395</b>	<b>1,443,993</b>

All unquoted available for sale equities are recorded at fair value except for investments with a carrying value of KD 6,131 thousand (2007: KD 3,775 thousand), which are recorded at cost since fair value cannot be reliably estimated.

Debt securities include KD 67,106 thousand (2007: KD 66,648 thousand) which are at variable rates of interest and KD 871,526 thousand (2007: KD 530,705 thousand) which are at fixed rates of interest.

An impairment loss of KD 22,182 thousand (2007: Nil) has been made against investments classified as available for sale on which there has been a significant or prolonged decline in value.

## 13 INVESTMENT IN ASSOCIATES

### Associates of the Group:

	Carrying value	
	2008 KD 000's	2007 KD 000's
International Bank of Qatar Q.S.C.	92,271	73,789
Turkish Bank A.S	35,031	-
Mecca Co. for Investments	293	255
International Co. for Postal Services	26	38
	<b>127,621</b>	<b>74,082</b>

Name of entities	Country of incorporation	% Capital held	
		2008	2007
International Bank of Qatar Q.S.C.	Qatar	30	30
Turkish Bank A.S	Turkey	40	-
Mecca Co. for Investments	Egypt	30	30
International Co. for Postal Services	Egypt	20	20

The Group acquired 40% interest in Turkish Bank A.S in January 2008. Goodwill paid on acquisition amounted to KD 24,152 thousand and is included in the carrying value of the associate. Investments in Mecca Co. for Investments and International Co. for Postal Services are held through its subsidiary Al Watany Bank of Egypt S.A.E.

Summarised financial information of the associates is as follows:

	2008 KD 000's	2007 KD 000's
Assets	1,807,659	808,129
Liabilities	1,582,459	663,426
Net operating income	52,896	24,560
Profit for the year	25,460	17,649

The associates are unlisted.

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## 14 GOODWILL AND OTHER INTANGIBLE ASSETS

On 31 October 2007, the Bank acquired a majority of the share capital of Al Watany Bank of Egypt S.A.E. Provisional values were assigned to the identifiable assets and liabilities acquired pending finalisation of the purchase price allocation (PPA) exercise. During the year, the Bank completed the PPA exercise and the provisional value of goodwill was allocated to various identifiable intangible assets and the residual value was accounted as goodwill. Goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the acquired subsidiary.

Intangible assets represent the value of licenses (KD 62,085 thousand), customer relationship (KD 6,058 thousand) and core customer deposits (KD 673 thousand) in respect of subsidiaries acquired. Intangibles assets are amortised over a period of 5 to 12 years.

The 31 December 2007 reported goodwill of KD 227,436 thousand relates to the acquisition of Al Watany Bank of Egypt S.A.E. and the intangible asset of KD 17,552 thousand relates to the value of the brokerage license arising on the acquisition of a majority shareholding in a Kuwaiti brokerage company. Goodwill relating to Credit Bank of Iraq S.A amounting to KD 891 thousand has been reclassified from other assets. Additions during the year relate to increases in investment in Al Watany Bank of Egypt S.A.E and Credit Bank of Iraq S.A.

	Goodwill KD 000's	Intangible assets KD 000's	Total KD 000's
<b>Cost</b>			
At 31 December 2007 (as reported)	227,436	17,552	244,988
Transfer to intangible assets	(51,264)	51,264	-
Changes in provisional value of assets and liabilities	(2,343)	-	(2,343)
Reclassification	891	-	891
Additions	1,556	-	1,556
Exchange adjustments	2,005	578	2,583
At 31 December 2008	<b>178,281</b>	<b>69,394</b>	<b>247,675</b>
<b>Accumulated amortisation</b>			
At 31 December 2007	-	-	-
Charge for the year	-	4,390	4,390
Exchange adjustments	-	10	10
At 31 December 2008	-	<b>4,400</b>	<b>4,400</b>
<b>Net book value</b>			
At 31 December 2007 (as reported)	<b>227,436</b>	<b>17,552</b>	<b>244,988</b>
At 31 December 2008	<b>178,281</b>	<b>64,994</b>	<b>243,275</b>

### 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 terminal growth rate of 5%. These cash flows were then discounted using a discount rate of 14% to derive a net present value which is compared to the carrying value of goodwill. The discount rate used is pre-tax and reflects specific risks relating to the relevant cash generating unit. 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.

## 15 OTHER ASSETS

	2008 KD 000's	2007 KD 000's
Interest receivable	64,482	89,804
Sundry debtors and prepayments	30,857	21,418
Other	23,295	20,217
	<b>118,634</b>	<b>131,439</b>

## 16 OTHER LIABILITIES

	2008 KD 000's	2007 KD 000's
Interest payable	52,406	69,971
Interest received in advance	29,997	27,346
Taxation	11,931	12,386
General provision on non-cash facilities (Note 11)	23,867	23,794
Accrued expenses	20,946	18,102
Staff payables	22,402	17,881
Other	75,705	55,650
	<b>237,254</b>	<b>225,130</b>

## 17 SHARE CAPITAL AND RESERVES

### a) Share capital

	2008 KD 000's	2007 KD 000's
Authorised, issued and fully paid :		
2,703,179,507 (2007 : 2,457,435,916 ) shares of KD 0.100 each	270,318	245,744

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

	2008	2007
Number of shares in issue 1 January	2,457,435,916	1,950,345,966
Bonus issue	245,743,591	97,517,298
Rights issue	-	409,572,652
Number of shares in issue 31 December	<b>2,703,179,507</b>	<b>2,457,435,916</b>

### b) Statutory reserve

The Board of Directors recommended a transfer of KD 12,287 thousand (2007: KD 25,355 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.

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.

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## 17 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:

	2008	2007
Number of treasury shares	94,867,500	-
Treasury shares as a percentage of total shares in issue	3.5%	-
Cost of treasury shares (KD thousand)	153,821	-
Market value of treasury shares (KD thousand)	111,944	-

Movement in treasury shares was as follows:

	No. of shares	
	2008	2007
Balance as at 1 January	-	17,391,888
Purchases	126,000,000	62,682,500
Bonus issue	-	2,737,594
Sales	(31,132,500)	(82,811,982)
Balance as at 31 December	<b>94,867,500</b>	-

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

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 31 December 2006	117,058	307,462	144,972	(1,292)	12,264	432	580,896
Net unrealised gains on available for sale investments	-	-	-	-	37,829	-	37,829
Net unrealised gains on available for sale investments - associates	-	-	-	-	531	-	531
Net realised gains transferred to statement of income on disposal	-	-	-	-	(19,587)	-	(19,587)
Foreign currency translation	-	-	-	(2,911)	-	-	(2,911)
<b>Total income and expense directly recognised in equity</b>	-	-	-	(2,911)	18,773	-	15,862
Profit for the year	-	273,572	-	-	-	-	273,572
<b>Total income and expense recognised for the year</b>	-	273,572	-	(2,911)	18,773	-	289,434
Transfer to statutory reserve	-	(25,355)	-	-	-	-	(25,355)
Dividend on treasury shares purchased	-	2,802	(2,802)	-	-	-	-
Prior year loss on sale of treasury shares	-	167	-	-	-	-	167
Dividends paid	-	-	(142,170)	-	-	-	(142,170)
Proposed bonus shares (Note 18)	-	(24,574)	-	-	-	-	(24,574)
Proposed cash dividend 75 fils per share (Note 18)	-	(184,308)	184,308	-	-	-	-
Share based payment (Note 19)	-	-	-	-	-	561	561
<b>At 31 December 2007</b>	<b>117,058</b>	<b>349,766</b>	<b>184,308</b>	<b>(4,203)</b>	<b>31,037</b>	<b>993</b>	<b>678,959</b>
At 31 December 2007	117,058	349,766	184,308	(4,203)	31,037	993	678,959
Net unrealised losses on available for sale investments	-	-	-	-	(15,794)	-	(15,794)
Net unrealised losses on available for sale investments - associates	-	-	-	-	(3,389)	-	(3,389)
Net realised gains transferred to statement of income on disposal	-	-	-	-	(19,940)	-	(19,940)
Foreign currency translation	-	-	-	(4,805)	-	-	(4,805)
<b>Total income and expense directly recognised in equity</b>	-	-	-	(4,805)	(39,123)	-	(43,928)
Profit for the year	-	255,349	-	-	-	-	255,349
<b>Total income and expense recognised for the year</b>	-	255,349	-	(4,805)	(39,123)	-	211,421
Transfer to statutory reserve	-	(12,287)	-	-	-	-	(12,287)
Dividends paid	-	-	(184,308)	-	-	-	(184,308)
Proposed bonus shares (Note 18)	-	(27,032)	-	-	-	-	(27,032)
Proposed cash dividend 45 fils per share (Note 18)	-	(117,374)	117,374	-	-	-	-
Share based payment (Note 19)	-	-	-	-	-	1,972	1,972
<b>At 31 December 2008</b>	<b>117,058</b>	<b>448,422</b>	<b>117,374</b>	<b>(9,008)</b>	<b>(8,086)</b>	<b>2,965</b>	<b>668,725</b>

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## 17 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.

## 18 PROPOSED DIVIDEND

The board of directors recommended distribution of a cash dividend of 45 fils per share (2007: 75 fils per share) and bonus shares of 10% (2007: 10%) on outstanding shares as at 31 December 2008. 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.

## 19 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 1.812 (2007: KD 1.923). The significant inputs into the model were a share price of KD 2.060 (2007: KD 2.180) at the grant date, an exercise price of 100 fils as shown above, a standard deviation of expected share price returns of 26% (2007: 26%), option life disclosed above and annual risk free interest rate of 6.375% (2007: 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:

	2008	2007
	No. of share options	No. of share options
Outstanding at 1 January	1,711,380	-
Granted during the year	2,433,712	1,841,340
Lapsed during the year	(402,670)	(129,960)
Outstanding at 31 December	<b>3,742,422</b>	<b>1,711,380</b>

The expense accrued on account of share based compensation plans for the year amounts to KD 1,972 thousand (2007: KD 561 thousand)

## 20 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. Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Investment securities classified as 'Available for sale' and 'Fair value through statement of income' are stated at fair values. For other financial assets and liabilities carried at amortized cost, the carrying value is not significantly different from their fair values as most of these assets and liabilities are of short term maturity or repriced immediately based on market movement in interest rates.

## 21 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.

	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
<b>2008</b>				
<b>Assets</b>				
Cash and deposits with banks and other financial institutions	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
	<b>6,516,909</b>	<b>1,742,019</b>	<b>3,714,394</b>	<b>11,973,322</b>
<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
Minority interests	-	-	11,025	11,025
	<b>9,508,374</b>	<b>844,384</b>	<b>1,620,564</b>	<b>11,973,322</b>
Net liquidity gap	<b>(2,991,465)</b>	<b>897,635</b>	<b>2,093,830</b>	

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## 21 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
2007				
<b>Assets</b>				
Cash and deposits with banks and other financial institutions	3,429,945	189,790	-	<b>3,619,735</b>
Central Bank of Kuwait bonds	227,162	-	-	<b>227,162</b>
Kuwait Government treasury bonds	29,569	198,490	110,307	<b>338,366</b>
Loans and advances to customers	2,759,307	789,401	2,371,600	<b>5,920,308</b>
Held to maturity investments	20,711	15,003	21,071	<b>56,785</b>
Available for sale investments	295,376	45,371	429,538	<b>770,285</b>
Investments carried at fair value through statement of income	51,395	-	-	<b>51,395</b>
Investment in associates	-	-	74,082	<b>74,082</b>
Land, premises and equipment	-	-	104,876	<b>104,876</b>
Goodwill and other intangible assets	-	-	244,988	<b>244,988</b>
Other assets	115,507	12,858	3,074	<b>131,439</b>
	<b>6,928,972</b>	<b>1,250,913</b>	<b>3,359,536</b>	<b>11,539,421</b>
<b>Liabilities and equity</b>				
Due to banks and other financial institutions	3,800,203	312,533	137	<b>4,112,873</b>
Customer deposits	5,014,086	288,510	203,914	<b>5,506,510</b>
Other liabilities	201,336	-	23,794	<b>225,130</b>
Share capital and reserves	-	-	1,501,557	<b>1,501,557</b>
Proposed cash dividend	184,308	-	-	<b>184,308</b>
Minority interests	-	-	9,043	<b>9,043</b>
	<b>9,199,933</b>	<b>601,043</b>	<b>1,738,445</b>	<b>11,539,421</b>
<b>Net liquidity gap</b>	<b>(2,270,961)</b>	<b>649,870</b>	<b>1,621,091</b>	

## 22 SUBSIDIARIES

Principal operating subsidiaries:

Name of entities	Country of incorporation	Principal business	% Capital held	
			2008	2007
National Bank of Kuwait (International) plc	United Kingdom	Banking	100.0	100.0
NBK Investment Management Limited	United Kingdom	Investment management	60.0	60.0
NBK Banque Privee (Suisse) S.A.	Switzerland	Investment management	100.0	100.0
National Bank of Kuwait (Lebanon) S.A.L.	Lebanon	Banking	85.5	85.5
National Investors Group Holdings Limited	Cayman Islands	Investment management	100.0	100.0
Credit Bank of Iraq S.A.	Iraq	Banking	75.0	75.0
Watani Investment Company K.S.C. (Closed)	Kuwait	Investment company	96.8	96.8
Watani Financial Brokerage Company K.S.C. (Closed)	Kuwait	Brokerage	86.7	86.7
Al Watany Bank of Egypt S.A.E.	Egypt	Banking	98.5	98.1

At 31 December 2008, 38.14 % (2007: 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.

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 31.

## 23 COMMITMENTS AND CONTINGENT LIABILITIES

	2008 KD 000's	2007 KD 000's
Commitments on behalf of customers for which there are corresponding liabilities by the customers concerned:		
Acceptances	69,193	104,765
Letters of credit	525,069	468,632
Guarantees	1,558,140	1,431,610
Commitments to extend credit	974,456	1,153,804
	<b>3,126,858</b>	<b>3,158,811</b>

In the normal course of business the Group has exposure to various indirect credit commitments which, though not reflected in the consolidated balance sheet, 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.

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## 24 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value by referring 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 balance sheet 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 balance sheet 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 assets 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 into 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.

### 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:

	Positive fair value KD 000's	2008 Negative fairvalue KD 000's	Notional KD 000's	Positive fair value KD 000's	2007 Negative fair value KD 000's	Notional KD 000's
Derivatives held as fair value hedges:						
- Interest rate swaps	1,187	12,562	398,712	1,469	4,164	327,203
- Forward rate agreements	-	-	-	23	13	21,472
Derivatives held for trading						
- Interest rate swaps	5,939	2,126	322,201	295	28	184,154
- Forward foreign exchange	24,649	26,560	1,335,012	13,160	23,552	1,671,471
	<b>31,775</b>	<b>41,248</b>	<b>2,055,925</b>	<b>14,947</b>	<b>27,757</b>	<b>2,204,300</b>

## 25 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:

	Number of Board Members or Executive Officers		Number of related parties		2008	2007
	2008	2007	2008	2007	KD 000's	KD 000's
Board Members						
Loans (secured)	6	6	24	22	350,590	307,279
Contingent liabilities	2	3	23	20	105,534	139,248
Credit cards	6	6	2	2	28	28
Deposits	8	6	15	24	79,607	46,407
Collateral against loans	6	6	24	22	494,392	672,641
Interest and fee income					39,742	24,413
Interest expense					1,117	1,179
Executive Officers						
Loans	6	7	-	-	434	425
Contingent liabilities	3	2	-	-	9	8
Credit cards	7	5	-	-	18	27
Deposits	11	21	-	-	597	512
Interest and fee income					13	8
Interest expense					26	4

There are no material transactions or balances with associates.

## 26 KEY MANAGEMENT COMPENSATION

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

	2008 KD 000's	2007 KD 000's
Salaries and other short term benefits	10,563	8,220
Post-employment benefits	1,506	797
Share based compensation	1,527	693
	<b>13,596</b>	<b>9,710</b>

# Notes to the Consolidated Financial Statements

31 December 2008

## 27 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.

### 27.1 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.

### 27.1.1 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:-

	2008		2007	
	Gross exposure KD 000's	Net exposure KD 000's	Gross exposure KD 000's	Net exposure KD 000's
Cash and deposits with banks and other financial institutions	2,560,761	2,560,761	3,619,735	3,619,735
Central Bank of Kuwait bonds	156,897	156,897	227,162	227,162
Kuwait Government treasury bonds	477,141	477,141	338,366	338,366
Loans and advances to customers	6,955,405	4,541,711	5,920,308	3,905,119
Held to maturity investments	97,994	97,994	56,785	56,785
Available for sale investments	840,638	840,638	540,363	540,363
Investments carried at fair value through statement of income	-	-	205	205
Other assets	118,634	118,634	131,439	131,439
	<b>11,207,470</b>	<b>8,793,776</b>	<b>10,834,363</b>	<b>8,819,174</b>
Contingent liabilities	2,152,402	2,042,755	2,005,007	1,723,765
Commitments	974,456	974,456	1,153,804	1,153,804
	<b>14,334,328</b>	<b>11,810,987</b>	<b>13,993,174</b>	<b>11,696,743</b>

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

#### 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.

# Notes to the Consolidated Financial Statements

31 December 2008

## 27 RISK MANAGEMENT (continued)

### 27.1.2 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 2008 is 21% (2007: 19%).

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:

#### 2008

Geographic region	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Other KD 000's	Total KD 000's
Cash and deposits with banks and other financial institutions	1,869,057	386,040	286,041	19,302	321	<b>2,560,761</b>
Central Bank of Kuwait bonds	156,897	-	-	-	-	<b>156,897</b>
Kuwait Government treasury bonds	477,141	-	-	-	-	<b>477,141</b>
Loans and advances to customers	6,505,424	39,281	333,739	52,929	24,032	<b>6,955,405</b>
Held to maturity investments	79,603	576	-	17,815	-	<b>97,994</b>
Available for sale investments	607,677	160,205	21,827	50,929	-	<b>840,638</b>
Other assets	105,901	626	9,862	1,464	781	<b>118,634</b>
	<b>9,801,700</b>	<b>586,728</b>	<b>651,469</b>	<b>142,439</b>	<b>25,134</b>	<b>11,207,470</b>
Commitments and contingent liabilities (Note 23)	2,205,953	69,871	322,107	513,608	15,319	<b>3,126,858</b>
	<b>12,007,653</b>	<b>656,599</b>	<b>973,576</b>	<b>656,047</b>	<b>40,453</b>	<b>14,334,328</b>

2007

**Geographic region**

	Middle East and North Africa KD 000's	North America KD 000's	Europe KD 000's	Asia KD 000's	Other KD 000's	Total KD 000's
Cash and deposits with banks and other financial institutions	2,700,113	212,084	677,308	29,864	366	<b>3,619,735</b>
Central Bank of Kuwait bonds	227,162	-	-	-	-	<b>227,162</b>
Kuwait Government treasury bonds	338,366	-	-	-	-	<b>338,366</b>
Loans and advances to customers	5,684,648	35,310	166,089	22,260	12,001	<b>5,920,308</b>
Held to maturity investments	48,143	1,351	-	7,291	-	<b>56,785</b>
Available for sale investments	290,049	161,776	37,111	47,331	4,096	<b>540,363</b>
Investments carried at fair value through statement of income	205	-	-	-	-	<b>205</b>
Other assets	111,290	1,519	15,134	-	3,496	<b>131,439</b>
	<b>9,399,976</b>	<b>412,040</b>	<b>895,642</b>	<b>106,746</b>	<b>19,959</b>	<b>10,834,363</b>
Commitments and contingent liabilities (Note 23)	2,287,377	140,190	309,360	406,851	15,033	<b>3,158,811</b>
	<b>11,687,353</b>	<b>552,230</b>	<b>1,205,002</b>	<b>513,597</b>	<b>34,992</b>	<b>13,993,174</b>

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:

	2008 KD 000's	2007 KD 000's
<b>Industry sector</b>		
Trading	1,561,328	1,382,627
Manufacturing	696,280	700,508
Banks and other financial institutions	4,089,817	4,982,457
Construction	750,763	792,953
Real Estate	1,408,154	1,525,057
Retail	1,904,066	1,867,290
Government	1,213,643	567,917
Other	2,710,277	2,174,365
	<b>14,334,328</b>	<b>13,993,174</b>

# Notes to the Consolidated Financial Statements

31 December 2008

## 27 RISK MANAGEMENT (continued)

### 27.1.3 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 balance sheet lines, based on the Group's credit rating system.

	Neither past due nor impaired		Past due or impaired KD 000's	Total KD 000's
	High KD 000's	Standard KD 000's		
<b>2008</b>				
Deposits with banks and other financial institutions 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 and other financial institutions	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
	<b>9,188,354</b>	<b>1,147,311</b>	<b>280,147</b>	<b>10,615,812</b>
<b>2007</b>				
Deposits with banks and other financial institutions maturing within seven days	844,523	-	-	844,523
Central Bank of Kuwait bonds	227,162	-	-	227,162
Kuwait Government treasury bonds	338,366	-	-	338,366
Deposits with banks and other financial institutions	1,616,254	225,329	-	1,841,583
Loans and advances to customers	5,459,588	448,225	212,271	6,120,084
Held to maturity investments	55,435	1,350	-	56,785
Available for sale investments	464,698	75,665	-	540,363
Investments carried at fair value through statement of income	205	-	-	205
	<b>9,006,231</b>	<b>750,569</b>	<b>212,271</b>	<b>9,969,071</b>

#### 27.1.4 Ageing Analysis of Past Due or Impaired Loans and Advances

	Corporate		Retail		Total	
	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's	Past due and not impaired KD 000's	Past due and impaired KD 000's
<b>2008</b>						
Up to 30 days	9,691	-	51,030	-	<b>60,721</b>	-
31 - 60 days	14,334	-	13,031	-	<b>27,365</b>	-
61 - 90 days	51,434	-	247	-	<b>51,681</b>	-
91-180 days	-	7,855	-	11,643	-	<b>19,498</b>
More than 180 days	-	78,622	-	42,260	-	<b>120,882</b>
	<b>75,459</b>	<b>86,477</b>	<b>64,308</b>	<b>53,903</b>	<b>139,767</b>	<b>140,380</b>
<b>2007</b>						
Up to 30 days	4,832	-	53,082	-	<b>57,914</b>	-
31 - 60 days	5,196	-	5,802	-	<b>10,998</b>	-
61 - 90 days	22,033	-	1,292	-	<b>23,325</b>	-
91-180 days	-	574	-	9,995	-	<b>10,569</b>
More than 180 days	-	82,723	-	26,742	-	<b>109,465</b>
	<b>32,061</b>	<b>83,297</b>	<b>60,176</b>	<b>36,737</b>	<b>92,237</b>	<b>120,034</b>

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 2008 was KD 101,033 thousand ( 2007: KD 54,734 thousand).

# Notes to the Consolidated Financial Statements

31 December 2008

## 27 RISK MANAGEMENT (continued)

### 27.2 Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its 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 non-derivative 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:

	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
<b>2008</b>				
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	4,195,800	396,415	41,794	<b>4,634,009</b>
Customer deposits	5,019,258	464,594	95,009	<b>5,578,861</b>
	<b>9,215,058</b>	<b>861,009</b>	<b>136,803</b>	<b>10,212,870</b>
<b>Contingent liabilities and commitments</b>				
Contingent liabilities	592,842	715,060	844,500	<b>2,152,402</b>
Commitments	447,042	278,112	249,302	<b>974,456</b>
	<b>1,039,884</b>	<b>993,172</b>	<b>1,093,802</b>	<b>3,126,858</b>

	Up to 3 months KD 000's	3 to 12 months KD 000's	Over 1 year KD 000's	Total KD 000's
<b>2007</b>				
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	3,816,331	323,210	145	<b>4,139,686</b>
Customer deposits	5,050,869	296,744	223,331	<b>5,570,944</b>
	<b>8,867,200</b>	<b>619,954</b>	<b>223,476</b>	<b>9,710,630</b>
<b>Contingent liabilities and commitments</b>				
Contingent liabilities	572,534	694,113	738,360	<b>2,005,007</b>
Commitments	488,709	397,852	267,243	<b>1,153,804</b>
	<b>1,061,243</b>	<b>1,091,965</b>	<b>1,005,603</b>	<b>3,158,811</b>

Refer Note 21 'Maturity analysis of assets and liabilities' for maturities of the financial liabilities shown above. The financial liabilities shown in Note 21 exclude future interest payments.

## 27.3 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.

### 27.3.1 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:

Currency	Movement in basis points	2008	2007
		KD 000's	KD 000's
KWD	+25	2,289	6,996
USD	+25	(1,455)	(1,077)
EUR	+25	79	(49)
GBP	+25	(229)	(342)

# Notes to the Consolidated Financial Statements

31 December 2008

## 27 RISK MANAGEMENT (continued)

### 27.3.2 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 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	2008		2007	
		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	(3,641)	-	(11,718)	-
GBP	+5	1,465	-	82	-
EUR	+5	230	-	-	-
Other	+5	7,676	16,388	3,703	14,596

### 27.3.3 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	2008	2007
		Effect on equity KD 000's	Effect on equity KD 000's
Kuwait stock exchange	+5	876	2,381
Abu Dhabi securities market	+5	23	731
Doha securities market	+5	424	916
Saudi stock exchange	+5	113	354

### 27.4 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.

## 28 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:

	2008 KD 000's	2007 KD 000's
Risk Weighted Assets	8,087,104	7,115,902
Capital required	970,453	853,908
Capital available		
Tier 1 capital	1,188,477	1,199,898
Tier 2 capital	48,762	72,806
Total capital	<b>1,237,239</b>	<b>1,272,704</b>
Tier 1 capital adequacy ratio	14.7%	16.9%
Total capital adequacy ratio	15.3%	17.9%

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.

## 29 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.

## 30 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.

## 31 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 2008, funds under management were KD 2,834 million (2007: KD 2,731 million).

# Independent Auditors' report to the Shareholders of

National Bank of Kuwait S.A.K

We have audited the accompanying consolidated financial statements of National Bank of Kuwait S.A.K. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's Responsibility for the consolidated Financial Statements

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

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank's management, as well as evaluating the overall presentation of the consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

## Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, and by the Bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/BS/184/2005 dated 21 December 2005, Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2008 that might have had a material effect on the business of the Group or on its financial position.

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

**Jassim Ahmad Al-Fahad**

Licence No. 53 A

Deloitte, Al-Fahad & Co

21 January 2009

Kuwait

**Waleed A. Al Osaimi**

Licence No. 68 A

of Ernst & Young

# Group Directory

## Head Office

Abdullah Al-Ahmed Street  
P.O.Box: 95, Safat 13001  
Kuwait City, Kuwait  
Tel: +965 2242 2011  
Fax: +965 2243 1888

## Executive Committee

Ibrahim S. Dabdoub  
Group Chief Executive Officer  
Ext: 2000 Fax: 2246 2469

Isam J. Al-Saqer  
Chief Executive Officer Kuwait  
Ext: 2111 Fax: 2246 2469

Shaikha K. Al-Bahar  
Deputy CEO  
Ext: 2166 Fax: 2245 9032

Adel A. Al-Majed  
Deputy CEO  
Ext: 2525 Fax: 2246 0160

Salah Y. Al-Fulaij  
Chief Executive Officer  
NBK Capital  
Ext: 6655 Fax: 2224 6983

Randa Sadik  
Group General Manager  
International Banking Group  
Ext: 6969 Fax: 2224 6977

## Consumer Banking Group

Retail Banking  
Ext: 3143 Fax: 2246 7929

Domestic Branches  
Ext: 3049 Fax: 2246 7929

Alternative Channels  
Ext: 3050 Fax: 2241 7641

Thahabi  
Ext: 3292 Fax: 2224 6671

Direct Sales  
Ext: 5000 Fax: 2259 5522

Consumer Lending  
Ext: 2324 Fax: 2259 5663

Marketing  
Ext: 2377 Fax: 2241 2373

Retail Sales  
Ext: 3036 Fax: 2241 6738

Consumer Credit Collection  
Ext: 2181 Fax: 2259 5672

**Private Banking Group**  
Ext: 2226  
Fax: 2241 8415 or 2224 6619

## Corporate Banking Group

Corporate Banking  
Ext: 2888 Fax: 2242 6813

Trade Finance  
Ext: 2161 Fax: 2245 8972

Foreign Corporate  
Ext: 2307 Fax: 2242 6813

**Strategic Planning &  
Business Development Group**  
Ext: 2310 Fax: 2224 6668

**Treasury Group**  
Ext: 2889 Fax: 2246 7627

**Credit Risk Management  
Group**  
Ext: 2417 Fax: 2246 4162

**Economic Research Group**  
Ext: 5353 Fax: 2224 6973

**Legal Affairs Group**  
Ext: 3091 Fax: 2244 5098

**Administration Group**  
Ext: 6620 Fax: 2244 8353

**Human Resources**  
Ext: 5195 Fax: 2244 3250

## International Banking Group

Regional Institutional Banking  
Ext: 6968 Fax: 2224 6977

*Please refer to international  
network for a complete listing*

**Operations Group**  
Ext: 3060 Fax: 2242 7809

**Information Technology  
Group**  
Ext: 2400 Fax: 2224 6973

**Group Financial Control**  
Ext: 2482 Fax: 2242 2730

**International Legal Affairs**  
Ext: 2065 Fax: 2243 6208

**Executive Office**  
Ext: 3222 Fax: 2246 2469

**Advertising**  
Ext: 2064 Fax: 2240 9235

**Public Relations**  
Ext: 3166 Fax: 2246 5190

**Group Internal Audit &  
Quality Assurance**  
Tel: 2572 4182 Fax: 2571 1785

# Local Branches

## Head Office

Tel: 2242 2011  
Fax: 2241 6922

## Ahmadi

Tel: 1 801 801  
Fax: 2398 5643

## Ahmed Al-Jaber

Tel: 1 801 801  
Fax: 2241 9442

## Ali Sabah Al-Salem

Tel: 1 801 801  
Fax: 2328 7153

## Al Adeliya

Tel: 1 801801  
Fax: 2259 3953

## Al Khaima (Jahra)

Tel: 1 801 801  
Fax: 2458 6719

## Al Tadhmour

(Farwaniya)  
Tel: 1 801801  
Fax: 2476 1290

## Andalus

Tel: 1 801 801  
Fax: 2499 1802

## Avenues

Tel: 1 801 801  
Fax: 2259 3857

## Bayan

Tel: 1 801 801  
Fax: 2538 9382

## Burj Al-Tahreer

Tel: 1 801 801  
Fax: 2247 3764

## Cinema Al-Salmiya

Tel: 1 801 801  
Fax: 2571 0950

## Dahyat Abdullah

Al-Salem  
Tel: 1 801 801  
Fax: 2256 1854

## Daiyah

Tel: 1 801 801  
Fax: 2256 3820

## Dasma

Tel: 1 801 801  
Fax: 2252 6485

## Fahad Al-Salem

Tel: 1 801 801  
Fax: 2241 7642

## Fahaheel

Tel: 1 801 801  
Fax: 2392 4447

## Fahaheel Al Sahely

Tel: 1 801 801  
Fax: 2392 4169

## Faiha

Tel: 1 801 801  
Fax: 2254 6741

## Farwaniya

Tel: 1 801 801  
Fax: 2474 0013

## Farwaniya 2

Tel: 1 801 801  
Fax: 2475 2422

## Fintas

Tel: 1 801 801  
Fax: 2390 3552

## Ghazali

Tel: 1 801 801  
Fax: 2483 4752

## Hawalli

Tel: 1 801 801  
Fax: 2261 2407

## Ibraq Kheitan

Tel: 1 801 801  
Fax: 2472 4084

## Jabriya

Tel: 1 801 801  
Fax: 2533 1944

## Jahra

Tel: 1 801 801  
Fax: 2455 3121

## Jahra Commercial Branch

Tel: 1 801 801  
Fax: 2456 3259

## Jleeb Al-Shuyoukh

Tel: 1 801 801  
Fax: 2431 7449

## Kaifan

Tel: 1 801 801  
Fax: 2483 9016

## Kuwait Petroleum

Corporation  
Tel: 1 801 801  
Fax: 2224 6764

## Kuwait University

(Shuwaikh)  
Tel: 1 801 801  
Fax: 2491 6582

## Ministries Complex

Tel: 1 801 801  
Fax: 2245 2721

## Mishref

Tel: 1 801 801  
Fax: 2538 9832

## MTC Headquarters

Tel: 1 801 801  
Fax: 2481 3699

## Mubarak Al-Kabeer

Tel: 1 801 801  
Fax: 2481 3699

## Nuzha

Tel: 1 801 801  
Fax: 2255 0858

## Othman

Tel: 1 801 801  
Fax: 2259 3943

## Qadisiya

Tel: 1 801 801  
Fax: 2254 6738

## Qurain

Tel: 1 801 801  
Fax: 2544 0772

## Qurtuba

Tel: 1 801 801  
Fax: 2534 4780

## Ras Al-Salmiya

Tel: 1 801 801  
Fax: 2572 9216

## Rawdha

Tel: 1 801 801  
Fax: 2252 2358

## Riqqa

Tel: 1 801 801  
Fax: 2394 4147

## Rumaithiya

Tel: 1 801 801  
Fax: 2564 0980

## Sabah Al-Nasser

Tel: 1 801 801  
Fax: 2480 7577

## Sabah Al-Salem

Tel: 1 801 801  
Fax: 2551 7215

## Sabahiya

Tel: 1 801 801  
Fax: 2361 7013

## Sabhan

Tel: 1 801 801  
Fax: 2474 0074

## Salmiya

Tel: 1 801 801  
Fax: 2574 3681

## Shamiah

Tel: 1 801 801  
Fax: 2484 6254

## Sharq

Tel: 1 801 801  
Fax: 2243 8348

## Shuwaikh

Tel: 1 801 801  
Fax: 2484 4126

## Shuwaikh Medical

Tel: 1 801 801  
Fax: 2492 0206

## Social Security (PIFSS)

Tel: 1 801 801  
Fax: 2247 2305

## Souk Sharq

Tel: 1 801 801  
Fax: 2242 3473

## Sour Street

Tel: 1 801 801  
Fax: 2243 0776

## South Surra

Tel: 1 801 801  
Fax: 2224 6867

## South Hawalli

Tel: 1 801 801  
Fax: 2259 3870

## Surra

Tel: 1 801 801  
Fax: 2259 3766

## Transport Centre

Tel: 1 801 801  
Fax: 2246 9923

## Watya

Tel: 1 801 801  
Fax: 2244 0731

## Waha Centre (Jahra)

Tel: 1 801 801  
Fax: 2457 1854

# International Network

## Bahrain

National Bank of Kuwait SAK  
Bahrain Branch  
Seef Tower, Al-Seef District  
P.O.Box 5290, Manama  
Bahrain  
Tel: +973 17 583 333  
Fax: +973 17 587 111

## Saudi Arabia

National Bank of Kuwait SAK  
Jeddah Branch  
Al-Andalus Street  
Red Sea Plaza  
P.O.Box 15385  
Jeddah 21444, Saudi Arabia  
Tel: +966 2 653 8600  
Fax: +966 2 653 8653

## United Arab Emirates

National Bank of Kuwait SAK  
Dubai Branch  
Sheikh Rashed Road  
Port Saeed Area  
ACICO Business Park  
P.O.Box 88867  
Dubai, U.A.E  
Tel: +971 4 2929 222  
Fax: +971 4 2943 337

## Jordan

National Bank of Kuwait SAK

Head Office  
Al Hajj Mohd Abdul Rahim Street  
Hijazi Plaza, Building # 70  
P.O.Box 941297  
Amman - 11194, Jordan  
Tel: +962 6 580 0400  
Fax: +962 6 580 0441

Sweifiah Branch  
Al Hajj Mohd Abdul Rahim Street  
Hijazi Plaza, Building # 70  
P.O.Box 941297  
Amman - 11194, Jordan  
Tel: +962 6 580 0444  
Fax: +962 6 580 0440

Shmeisani Branch  
Shareef Abdul Hamid Sharaf St.  
P.O.Box 941297  
Amman - 11194, Jordan  
Tel: +962 6 560 8800  
Fax: +962 6 560 8811

Aqaba Branch  
Al Cornish Street  
Jordan National Shipping Line Bldg.  
P.O.Box 941297  
Amman - 11194, Jordan  
Tel: +962 3 2090555  
Fax: +962 3 2090550

## Lebanon

National Bank of Kuwait  
(Lebanon) SAL  
  
Sanayeh Head Office  
BAC Building, Justinien Street  
P.O. Box 11 - 5727, Riad El - Solh  
1107 2200 Beirut, Lebanon  
Tel: +961 1 759 700  
Fax: +961 1 747866

Ashrafieh Branch  
Tel: +961 1 201 680  
Fax: +961 1 201 763

Chiah Branch  
Tel: +961 1 270 176  
Fax: +961 1 270 177

Dora Branch  
Tel: +961 1 899 530  
Fax: +961 1 898 903

Hamra Branch  
Tel: +961 1 353 416  
Fax: +961 1 349 825

Mazraa Branch  
Tel: +961 1 701 025  
Fax: +961 1 317 076

Jounieh Branch  
Tel: +961 9 639 951  
Fax: +961 9 639 954

Aley Branch  
Tel: +961 5 556 501  
Fax: +961 5 556 504

Bhamdoun Branch  
Tel: +961 5 260 100  
Fax: +961 5 260 102

Broumana Branch  
Tel: +961 4 860 660  
Fax: +961 4 860 662

## Iraq

Credit Bank of Iraq  
Street 9, Building 187  
Sadoun Street, District 102  
P.O. Box 3420  
Baghdad, Iraq  
Tel: +964 1 7182198/7191944  
+96417188406/7171673  
Fax: +964 1 7170156

## Qatar

International Bank of Qatar  
QSC (Associated Company)  
Suhaim Bin Hamad Street  
P.O. Box 2001  
Doha, Qatar  
Tel: +974 447 3700  
Fax: +974 447 3710

## Egypt

Al Watany Bank of Egypt  
13 Al Themar Street  
Gameat Al Dowal Al Arabia  
Fouad Mohie El Din Square  
Mohandessin, Giza  
Tel: +202 333 888 16/17  
Fax: +202 333 79302

## United Kingdom

National Bank of Kuwait  
(International) PLC

Head Office  
13 George Street  
London, W1U 3QJ, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7224 2101

National Bank of Kuwait  
(International) PLC  
Portman Square Branch  
7 Portman Square  
London, W1H 6NA, UK  
Tel: +44 20 7224 2277  
Fax: +44 20 7486 3877

NBK Investment  
Management Limited  
13 George Street  
London, W1U 3QJ, UK  
Tel: +44 20 7224 2288  
Fax: +44 20 7224 2102

## France

National Bank of Kuwait  
(International) PLC  
Paris Branch  
90 Avenue des Champs - Elysees  
75008 Paris, France  
Tel: +33 1 5659 8600  
Fax: +33 1 5659 8623

## Turkey

### Turkish Bank

Head Office  
Valikonagi Caddessi No 1  
P.O.Box 34371, Nisantasi  
Istanbul  
Tel: +90 212373 6373  
Fax: +90 212225 0353

## Singapore

National Bank of Kuwait SAK  
Singapore Branch  
9 Raffles Place # 51- 01/02  
Republic Plaza  
Singapore 048619  
Tel: +65 6222 5348  
Fax: +65 6224 5438

## Vietnam

National Bank of Kuwait SAK  
Vietnam Representative Office  
Room 2006, Sun Wah Tower  
115 Nguyen Hue Blvd, District 1  
Ho Chi Minh City  
Tel: +84 8 3827 8008  
Fax: +84 8 3827 8009

## China

National Bank of Kuwait SAK  
Shanghai Representative Office  
Suite 1003, 10th Floor  
Azia center  
1233 Lujiazui Ring Road  
Shanghai 200120, China  
Tel: +86 21 6888 1092  
Fax: +86 21 5047 1011

## United States of America

National Bank of Kuwait SAK  
New York Branch  
299 Park Avenue, 17th Floor  
New York, NY 10171, USA  
Tel: +1 212 303 9800  
Fax: +1 212 319 8269

## Kuwait

Watani Financial Brokerage Co.  
Abdullah Al-Ahmed Street  
Al-Naqi Building, Office 17  
P.O.Box: 21350  
Safat 13074  
Kuwait  
Tel: +965 2245 0813  
Fax: +965 2245 0809

NBK Capital  
Dar Al-Awadi bldg, 17th floor  
Ahmed Al Jaber Street, Sharq  
P.O.Box 4950, Safat 13050  
Kuwait  
Tel: +965 2224 6900  
Fax: +965 2224 6905

NBK Capital - UAE  
Precinct Building 3, Office 404  
Dubai International  
Finance Centre  
P.O.Box 506506, Dubai  
United Arab Emirates  
Tel: +971 4 365 2800  
Fax: +971 4 365 2805

NBK Capital - Turkey  
Sun Plaza, 30th Floor  
Dereboyu Sk. No. 24  
Maslak 34398, Istanbul  
Turkey  
Tel: +90 212 276 5400  
Fax: +90 212 276 5401

**National Bank of Kuwait**  
P.O. Box 95, Safat 13001, Kuwait  
Tel: +965 22422011, Fax: +965 22465190  
Email: [webmaster@nbk.com](mailto:webmaster@nbk.com)  
[www.nbk.com](http://www.nbk.com)