Kuwait Finance House K.S.C.
and Subsidiaries

31st
Annual Report

2009

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بيت التمويل الكويتي
Kuwait Finance House
الأمان والإطمئنان

بسم الله الرحمن الرحيم

In the name of Allah the Most Gracious, the Most Merciful
Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Qura'an

His Highness

Sheikh Sabah Al Ahmad Al Jaber Al Sabah

The Amir of Kuwait

His Highness

Sheikh Nawaf Al Ahmad Al Jaber Al Sabah

The Crown Prince

His Highness

Sheikh Nasser Mohammad Al Ahmad Al Sabah

The Prime Minister

Kuwait Finance House
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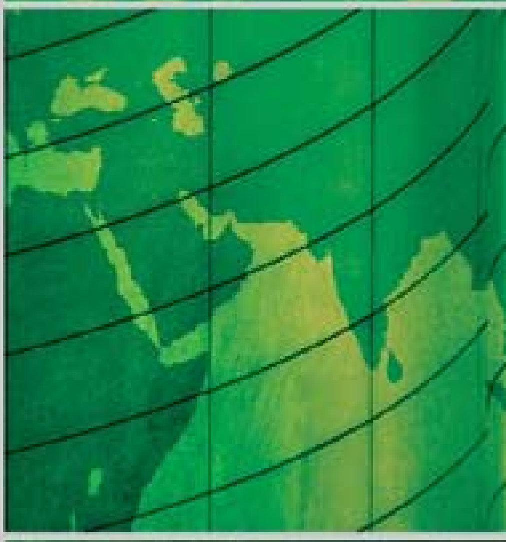


Contents

When Optimism And Dedication Meet

At Kuwait Finance House, we have continuously thrived to make our society a better place, in which every member of the community can live in harmony, succeed and work to build a prosperous future.

Board of Directors

Chairman and Managing Director

Bader Abdul Muhsen Al-Mukhaizeem

Deputy Chairman

Sameer Yaqoub Al-Nafeesi

Board Member

Mohammed Ali Al-Khudairi

Board Member

Saud Abdul Aziz Al-Babtain

Board Member

Ali Mohammed Al-Elaimi

Board Member

Essam Saud Al-Rashid

Board Member

Dr. Mohammed A. Al-Sherif

Board Member

Khaled Abdulaziz Al-Hasson

Board Member

Ahmed Abdullah Al-Omar

Board Member

Adel Abdul Muhsen Al-Subeih


Promoting
Successful
Ventures

Report of Al-Fatwa and Shareea᾿ah Supervisory Board

By following up the performance of Kuwait Finance House during the year ended 31 December 2009, we certify confidently that all activities were practiced in compliance with Islamic Shareea ah and no violations have occurred, to the best of our knowledge.

Chairman

Sheikh Ahmad Bazie Al-Yaseen

Shareea᾿ah Board Member

Sheikh Dr. Khaled Mathkour Al-Mathkour

Shareea᾿ah Board Member

Sheikh Dr. Ajeel Jasem Al-Nashmi

Shareea᾿ah Board Member

Sheikh Dr. Anwar Shuaib Abdulsalam

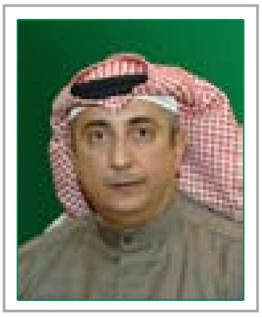
Shareea᾿ah Board Member

Sheikh Dr. Mohammad Abdul Razak Al-Tabtabae

Shareea᾿ah Board Member

Sheikh Dr. Mubarak Jaza Al-Harbi

Shaping A Better Future



Chief Executive Officer
Mohammad Sulaiman Al-Omar

Assistant General Manager
Emad A. Al-Thaqeb

Assistant General Manager
Mohammad Naser Al-Fouzan

Assistant General Manager
Ahmad Mohammad Al-Khalid

Assistant General Manager
Abdul Aziz Al-Jaber

Assistant General Manager
Dr. Waleed Essa Al-Hasawi

Assistant General Manager
Abdulnaser Abdul Muhsen Al-Subeih

Assistant General Manager
Mohammad Saeed Abdul Wahab


BUILDING
TRUE PARTNERSHIP

In the Name of Allah, The Beneficent, The Merciful
Speech of the Chairman & Managing Director
Stability and Challenge

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Praise is to the All Mighty Allah, and peace and blessings be upon his Prophet, Muhammad, his folks, companions and followers to the Day of Judgment.

Dear Brothers and Sisters,

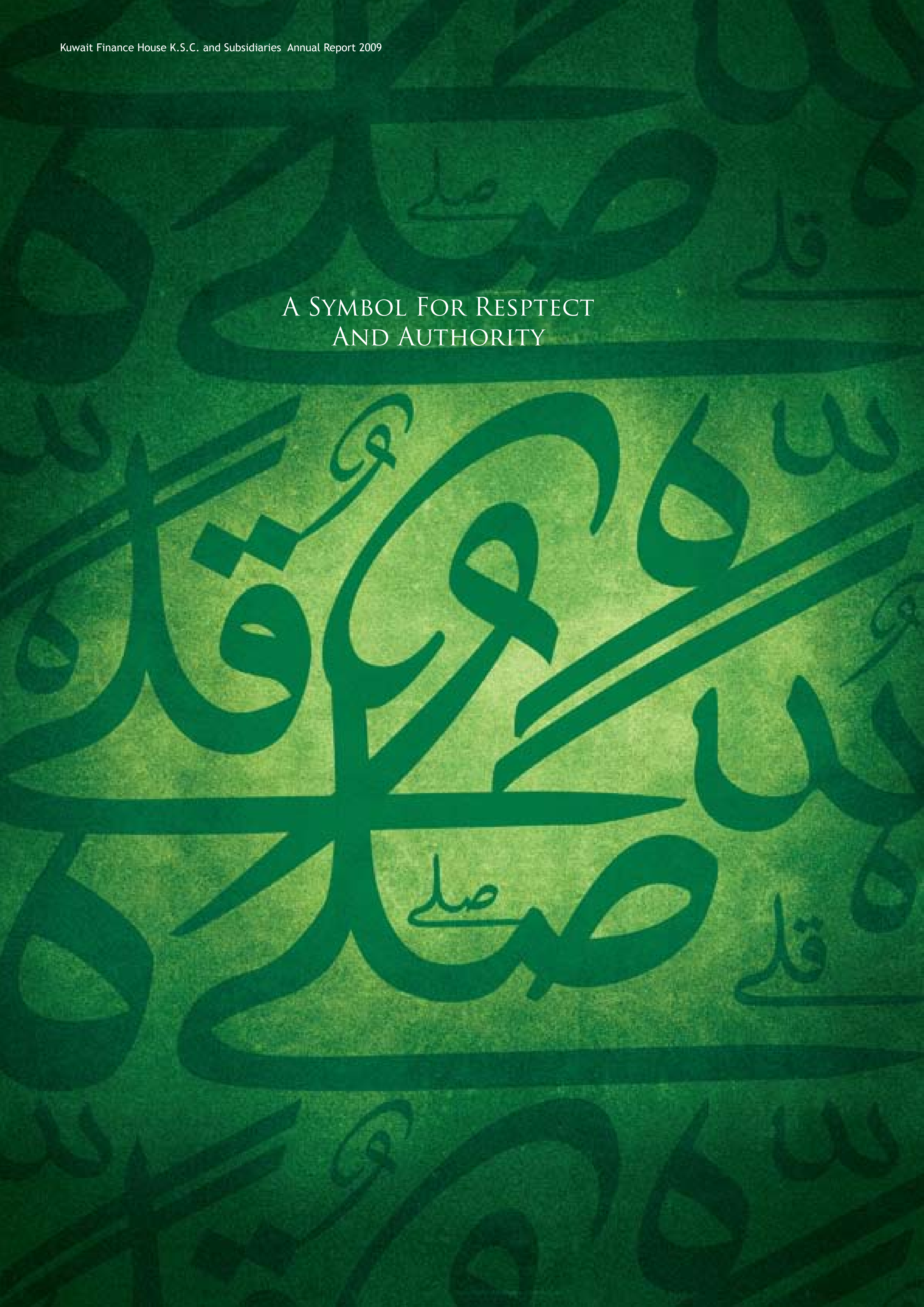
It gives me great pleasure to welcome you at the 31st General Assembly Meeting, and present to you the Kuwait Finance House (KFH) Annual Report for the year ending December 31, 2009 including the Al-Fatwa & Shareea'ah Supervisory Board (FSSB) Report, the key annual achievements, the local, regional, and global developments, Capital Adequecy Report and the Consolidated Financial Statements of KFH and its subsidiaries, as well as the Auditors' Report.

Thanks to Almighty Allah, KFH Group has been able to overcome the adverse repercussions of the global financial turmoil and maintain its prudent strategy which has effectively helped KFH enforce the foundations of the Islamic financial services industry, not to be tempted by the pursuit of record returns on investment, and hold a powerful grip on the ethics and morals of Shareea'ah-compliant Islamic banking. KFH, therefore, is able to position itself as a key leader of Islamic investment on the local, regional, and international levels backed by diligent studies, promising expansion plans, and prudent risk management policies aiming at maintaining KFH's diverse base of assets including clients' and shareholders' funds.

Given the close relevance to the economic environment in which it operates and to the global capital markets which have been hit by a severe recession which recalled to minds the memories of the Great Depression, KFH has been affected to a lesser extent by the adverse repercussions of the economic downturn, due to its reliable instruments and sound investments. In response, KFH worked towards realigning the components of its investment portfolio by maintaining its geographic diversification policy, monitoring the performance of its subsidiaries, increasing the risk-limited and fixed-income investment instruments, increasing the liquidity ratios, maximizing revenues, rationalizing expenditures, promoting KFH financial, economic, and social role, and targeting new markets; chiefly, the regional markets.
KFH enhanced its focus on the Saudi market which is well positioned for an economic turnaround, and to Turkey as KFH Turkey boomed and expanded its branches to 120. In line with its outlook for an international presence, KFH obtained a license to operate in Germany. In addition, KFH inaugurated its 7th branch in Malaysia and 9th branch in Bahrain, so that the total number of KFH branches extending nationwide, regionally, and internationally has increased to 186 branches; which reflected the multiple accomplishments of KFH over the past thirty years and stressed the fact that KFH is amazingly exceeding the expectations of its clients, developing an array of services and products in order to cater to the changing requirements of the diverse segments of clients and solicit new clients, improving the quality level of the existing services and upgrading the performance level of employees to the highest standards, maintaining effective communication with society, and increasing expenditure on technological infrastructure.

It goes without saying that 2009 was of significant importance for KFH, given the events and challenges associated with the aggravated repercussions of the global financial and economic turndown, the adverse impacts of such challenges on the local economic, monetary, and banking conditions since Q3 of 2008, and the turning of the financial crisis into a global financial and economic crisis. As the pressing need arose for a quick action to ease out the adverse impacts of the global turmoil on KFH's stability, KFH took the lead to stabilize its operations as it allocated adequate provisions for facing such challenges and acted in compliance with the international supervisory standards and Basel II. In the meantime, the issue of collecting revenues during the year was not a big concern to KFH; rather KFH focused its attention on seizing the right opportunities while bearing in mind that while a crisis usually results in challenges, it also creates opportunities which should be properly seized. KFH, therefore, mobilized its resources, capabilities, and strengths into four key directions; coping its strategy with the current economic

A Symbol For Resptect And Authority



developments, ensuring proficiency and effectiveness of its risk management techniques, expanding locally and internationally and moving with the advancement in technology, and developing and diversifying its base of services, products and human resources.

Thanks to Allah, KFH demonstrated its successful business model and enlarged its base of assets to KD 11 billion by the end of 2009. This has, in fact, influenced the Islamic financial business positively, enhanced the efficiency of performance, promoted the level of transparency and caliber of KFH both locally and internationally, and contributed to strengthening Kuwait's leadership and endeavors as a sincere advocator for the Islamic financial services industry, which have become a successful business model worldwide in terms of containing the adverse repercussions of the global turmoil that hit the entire global banking system. Islamic banks stood resilient to the global turmoil as they operated away from the Risky Triangle; the usurious interest, debt trading, and investment in derivatives.

KFH Credit Ratings by the International Rating Agencies (IRAs)

Major international rating agencies have underscored their trust in KFH through asserting their ratings despite the global crisis in a clear sign to KFH's high credit standing, KFH's ability to put its strategic plans of expansion, growth, and competition into effect, and KFH's high potential of overcoming the adverse repercussions of the global financial turmoil with minimum risks. As a new international recognition of the strong financial standing of KFH, Capital Intelligence stated that KFH, established more than 30 years ago, is the most prominent and advanced Islamic institution in Kuwait which is evident by the large market share that it dominates in terms of credit, deposits and assets. In addition, KFH uses its powerful position in the local market to reinforce its global stature where the need for Islamic banking products and services is on the rise, especially after the unprecedented profit which KFH achieved over the past years. Furthermore, Moody's, Fitch Ratings, Standard & Poor's, and Capital Intelligence reasserted KFH long term and short term rating.

Clients' Trust and Significant Influence

Throughout 2009, KFH continued to dominate by a large market share in the Kuwaiti banking industry despite KFH's leading market share in financing and deposits; a matter which reflects the trust and the strength of its relationship with its clients. KFH spared no effort in meeting the needs and requirements of its clients and targeted all segments of Kuwaiti society.

Ongoing Development of Communication Channels

Despite the global financial turmoil, KFH continued its efforts to use all communication channels. Therefore, KFH broadened its network of branches extending nationwide in order to achieve more penetration into the market, increase its market share, and provide its services to a larger customer base more qualitatively, flexibly, and quickly while making use of the information technology to improve efficiency and rationalize expenditure. The number of local branches rose to 50 and the ladies sections rose to 36 along with the banking branches; in addition, the number of ATM Machines rose to 99 machines. The Cash Deposit Machines (CDM) service which was introduced in Kuwait for the first time and has been expanded by entering 15 additional CDMs into service; thus, increasing the number to 35 CDMs throughout Kuwait.

KFH has always presented its credit-card holders with innovative services. Following the popular demand by KFH clients on Al-Tayseer Credit Card Package (Shareea'ah-compliant cards), KFH then introduced Al-Kheir Credit Card, Diamond Credit Card, and the first Takaful Insurance Product ever offered in Kuwait; reflecting how far KFH progressed in providing comprehensive and innovative services. Viewed as the first initiative of its kind nationwide, KFH launched its BlackBerry Application Service whereby clients can get access to the currency exchange rates, review the financing deals calculation, and get access to the available offers via their BlackBerry device.

KFH presented a bouquet of products to ensure instant access to its services, achieve record growth rates, and cut down the costs associated with the provision of products by updating the KFH Website. In another development, the KFH Online service was upgraded through launching "Site Key", which provides the highest safety and security criteria and protects clients from suspicious websites. In addition, the second phase of "Baitak to Baitak" service related to the instant money transfer was brought into service.

On another front, KFH developed its IT systems and platforms and innovated new systems to keep pace with the technological updates in order to enhance efficiencies and cut down expenditures in the long run. To this effect, KFH is in the process of bringing two new systems into service at the Credit Department and the Local Real Estate Department, and is performing the final commissioning of the automated solutions at the Commercial Sector. To facilitate customer services throughout KFH, we developed a new electronic archiving system, which can accommodate 20 million documents with a data retrieval rate not exceeding 30 seconds. Furthermore, the remote operation of branches was brought into service in order to enable direct selling by the Banking and Commercial Sector employees.

The World's Most Trusted Islamic Bank

WORLD FINANCE
ISLAMIC FINANCE AWARDS
2009

Local Market

The local market is a top priority in KFH's strategy, given that its share in the local market is on the rise. To this effect, KFH has been developing its services in the local and real estate markets as well as the corporate finance area.

KFH has taken the lead in consumer finance and achieved a remarkable growth, especially in the motor vehicle and construction material finance. KFH has sustained its support of the local market through financing actual buying, selling, and Ijarah transactions; and through the support of an integrated base of clients and vendors leading the way for many others to companies, banks, and others aspiring to enhance Islamic financial products.

In compliance with its geographic diversification strategy, KFH established new showrooms, banking branches, supplier showrooms in different areas, and work is underway to inaugurate the Farwaniya showroom after completing the renovation works.

Real Estate Services

KFH has maintained its central and leading role in the real estate management and finance fields backed by a proficient team that is well versed in development and management of real estate in the MENA region.

In 2009, KFH secured a judiciary judgment allowing KFH to provide finance to residential real estates, as an exception from Law No. 8 and Law No. 9, with a positive effect on home financing. In response, KFH dedicated its efforts during 2009 towards developing and offering a number of profitable real estate portfolios for clients, and therefore, launched its KFH Real Estate Portfolio with a capital worth KD 50 Million. In addition, KFH developed a number of fixed-income real estate properties; about 50 real estate properties, throughout Kuwait which will reinvigorate the local economy through private funding by KFH.

In line with KFH's strategy to raise public awareness of the real estate industry, KFH continued to issue quaterly real estate reports on the development, trends, and rates of real estate properties in Kuwait reaching the status of a key reference to investors and decision makers.

Corporate Finance and Business Sector

KFH sustained its significant role in the corporate finance and business sector and increased its market share, enforcing its position as a key player in corporate finance. In this regard, KFH is currently managing a credit portfolio of high quality assets. In addition, KFH launched a set of initiatives to reinforce KFH's relationship with its clients, as the Credit Department played a significant role in rescheduling the debts of the big investment companies in line with KFH's goals of reinforcing the national economy and creating an investment-enabling environment.

Human Resources

KFH focused its attention on its employment policy and is always committed to solicit the competent human resources that can cope with the latest developments in the banking industry and provide top-notch services to clients. To KFH, human resources are a key strategic asset. KFH dedicated its utmost efforts during the last year towards developing and enhancing the knowledge, skills, and expertise of its human resources, and increased the ratio of Kuwaiti labour to exceed 63%. However, KFH kept a level of expenditure similar to the previous year in spite of the increasing number of employees.

Social Responsibility

We, at KFH, do realize that we are a part of society and therefore interact with it through assuming our social responsibility role in coordination with the government and other active institutions interested in providing philanthropic assistance and social activities. Therefore, KFH designated KD 6 Million for performing its role; of which KD 3 Million was given to Bait Al-Zakat (Kuwait Zakat House) for spending on philanthropic activities, assisting poor families, completing charitable projects in the name of KFH in poor countries, and for the relief and disaster recovery activities outside Kuwait.

On another front, the Special Needs Project owned by Ministry of Social Affairs and Labor at Al-Zoor area, with a total cost of KD 1 Million, was completed. The Project includes a multi-purpose hall, an entertainment centre, 3 furnished residential units, and a covered swimming pool. The Project accommodates 50 guests who will have the chance to visit the Centre at anytime throughout the year. In addition, in line with KFH's initiative to establish 15 emergency ambulance service centres with a total cost worth KD 1.5 Million, KFH completed 3 emergency ambulance service centres in Al Fahaheel, Rumaithia and Jleeb Al Shoyoukh; not to mention KFH's contributions in other social programs designated for those of special needs.

In addition, KFH disseminated 1 million copies of English translations of the Holy Qura'an, sponsored several worldwide conferences and seminars, and honoured many tiers of the Kuwaiti society including traffic police officers, Capital Governorate patrols, and top students of the high school certificate holders.

The World is Your Home

186 Branches Worldwide

Balance Sheet

Total assets reached KD 11.291 billion at the end of the year with an increase of KD 747 million as compared to 2008 equal to 7% compared to the previous year. As for liabilities, clients' accounts balances have reached KD 7.262 billion with an increase of KD 650 million equal to 10% over the previous year. Shareholders' equity has reached KD 1.242 billion.

Revenues:

Total realized revenues for this year have reached KD 766 million. After deducting the various expenses and provisions, profit before allocations reached KD 317 million.

Shareholders' Profits:

Net profits for shareholders' reached KD 118.741 million.

Profit Allocation:

Profits are allocated to investor depositors for the Financial Year ending December 31, 2009 as per the following table:

Type of Account	2009	2008
Continous Investement Deposits	2.780 %	4.3 %
Sedra Deposits	2.162 %	3.344 %
Saving Investements Accounts	1.853 %	2.867 %

Economic Developments Review

First: The National Economy (Kuwait)

Kuwaiti economy reacted, and is forecasted to register a negative growth rate of 2.4% in 2009 as compared to the previous year and to rise in 2010 to 2.1%.

Despite the tangible efforts exerted by the Government of Kuwait; mainly the Rescue Task Force which has carried out several measures aiming at maintaining the integrity of and regaining confidence to the financial sector through the quick intervention by the Kuwait Investment Authority (KIA) in the Kuwait Stock Exchange (KSE) to reinvigorate and regain confidence to KSE, approving an expansive monetary policy by the Central Bank of Kuwait aiming at procuring liquidity at banks, reducing the discount rate four times since the global financial turmoil to decrease from 4.50% to 3%, issuing a law for guaranteeing the deposits at local banks, and issuing the Financial Stabilization Acts yet, Kuwaiti Economy experienced the adverse repercussions of the global financial turmoil.

In a positive initiative on its part, the Kuwaiti Government is planning to launch mega companies in different sectors of the economy, offer their shares for public subscription, and pump new investments into the Kuwaiti economy. The Kuwaiti Government has also announced its five-year budget (2009-2014) aiming at setting up mega projects such as Jaber Bridge, and setting up new residential towns, developing the production of oil and its derivatives, setting up power generation plants and gas stations, in addition to a number of service projects aiming at diversifying the sources of income, attracting more investments, and encouraging the Private Sector's participation in the government-led projects.

This is a very significant step as the positive financial policy and the government expenditure are essential to the infrastructure projects in Kuwait in light of the huge reserves made during the past five years, which can be used in supporting and boosting the local economy. This, in fact, will broaden the Private Sector's role, maximize the size of production, and diversify the sources of income to spare the Kuwaiti economy and budget from the fluctuations of the oil revenues caused by the global financial turmoil or any future crisis.

Kuwaiti Economy Indices during the period 2005 - 2010

Description	2005	2006	2007	2008	2009 (forecasted)	2010 (forecasted)
The Actual GDP in KD Billion (1)	23.6	29.5	31.8	39.1	31.7	39.4
The Actual GDP in Billion US Dollars (1)	80.02	101.01	109.04	142.10	112.4	138.8
Actual Growth Rate (%) (2-4)	10.6	5.2	4.4	7.7	-2.4	2.1
Per Capita Income (3) (thousand US Dollars)	24,731	30,455	32,075	42,957	34,891	42,714
Population (4) (Millions)	3.2	3.3	3.4	3.3	3.2	3.2

Source: BMI estimates; ƒ BMI forecasts.
1 Central Bank of Kuwait; 2 State Planning Organization;
3 BMI calculation; 4 IMF.

BAITOK

Security & Peace of Mind

Second: GCC Economy

GCC economies have been directly affected by the global financial turmoil, marked by a sharp decline in oil prices; especially at the very beginning of the crisis, given that oil prices fluctuated between USD 30 to USD 40 per barrel and touched USD 70 in August of the same year, driven by the global economy downswing and the sudden depletion of capital flows which slowed down the GCC economy growth at 0.7%.

However, GCC countries adopted effective economic policies that mitigated the negative impacts of the global crisis, as such policies aimed at pumping liquidity to the financial institutions, expanding credit by the central banks, cutting down interest rates, guaranteeing deposits, and acquiring shares. Furthermore, the majority of the GCC countries; namely, KSA and UAE, have put in place certain expansive monetary policies to reinvigorate their economies. In the meantime, GCC markets have been able to face recent crises (Gulf Bank crisis, the crisis of the Saudi conglomerates “AlGosaibi Group and Saad Group”, and the debts of Dubai). Given the continued compliance with these policies and the forecasted increase of oil prices beyond USD 75 per barrel, growth is forecasted to rise to 5.2% in 2010.

Data also shows slow inflation rates in GCC driven by the decrease in real estate prices and rentals and the devaluation of the US Dollar serving as the basic currency of oil trade. The inflation ratio in GCC in general slumped from 10.8% in 2008 to 3.7% in 2009; yet, in Oman, Kuwait, and KSA, inflation ratios dropped from 12.4%, 8.6%, and 9.9% in 2008 to 4.3%, 4.1%, and 3.4% in 2009 respectively. The last global financial crisis unveiled the weaknesses in certain units of the banking sectors and investment companies, and therefore, exceptional measures should be taken to ensure stability, reinforce corporate governance, mobilize resources, and diversify risks.

GCC Economy Indices during the period 2005 - 2010			
Description	2008	2009 (forecasted)	2010 (forecasted)
The Actual GDP Growth (%)	6.4	0.7	5.2
Oil (%)	5.8	5.2-	5.5
Non-Oil (%)	6.6	3.2	4.4
Inflation (%)	10.8	3.7	3.8
Revenues (USD Billion)	513.8	478.3	516.3
Expenditure and net Gov. Lending (USD Billion)	305.6	316.6	332.9
Source: IMF			

Third: Global Economy

The outlook of the global economy remains ambiguous despite some international institutions’ assertions for optimism and stability following the rigorous recession and the crushing global downswing ever witnessed since World War II; thus, creating a potential mix of positive and negative indices. As for the positive outlook, improvement in the financial positions is expected if backed by the governments’ intervention for reinforcing the economies, changes in the inventory cycle, and the financial and monetary leverage, not to mention the signs of a noticeable improvement in the recent forecasts and the positive prospects showed by forecasts of the economic activity which is progressing slowly in the developed countries. A slow growth of 1.5% is expected in the advanced economies during 2010 and the unemployment ratios are expected to continue rising to touch 10% for the first time over the last decades, while an accelerated growth is expected for the emerging economies as the actual GDP is forecasted to reach 5% in 2010 as compared to 1.75% in 2009. China and India achieved a growth rate of 8.5% and 6.5% respectively during 2009. On the other hand, some emerging economies especially in middle and east of Europe and Africa are still facing certain difficulties, while growth was reported in Asia and Latin America; however, these regions seemed to enable the West to come out of the recession.

Despite these positive forecasts, the global downswing is yet dispersed, and the economic recovery is forecasted to remain slow amidst concerns of the diminishing support provided by the public policies within the course of time.

In this regard, the recent meetings of the G20 recommended that the existing measures of reinvigorating the economy shall remain in place in order to ensure complete recovery from the global crisis backed by the IMF, the global financial system should be rectified, effective measures to avoid falling into troubles should be taken, and policies should be well coordinated among the member states of the G20.

In conclusion, we wholeheartedly thank Allah for his countless blessings, and call upon Allah to help us achieve KFH objectives in a way that ensures what is good for our society and our valuable clients, driven by the wise leadership of H.H Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and H.H Crown Prince Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah. I would like to seize the opportunity to express my gratitude for all official authorities, respectful clients, and KFH staff members who do not hold back any effort to support the progress and cause of this great Islamic financial institution.

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

Risk Management - Disclosures Concerning Capital Adequacy Standard

Qualitative and quantitative disclosures related to capital adequacy standard under Basel II have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular No.2/RBA/44/2009 dated 15 June 2009. General disclosures related to Capital Adequacy Standard under Basel II rely on calculating the minimum capital required to cover credit and market risks using the Standardized Approach and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Group Structure

Kuwait Finance House (the "Bank") and its subsidiaries' (collectively the "Group") are engaged in providing Islamic banking and finance and investment services that comply with Islamic Shareea'ah. Subsidiaries are fully consolidated into the Bank's financial statements based on similar accounting policies. The associates' activities include Takaful insurance and liquidity management and are accounted for using the equity method of accounting. Details about subsidiaries and associates are as follows:

1. Subsidiaries

1.1 **Kuwait Finance House (Malaysia)** is a wholly owned Islamic Bank registered in Malaysia since 2006. It has seven branches; and its long-term rating is AA2 and short-term rating is P1 with a stable outlook. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.2 **Kuwait Finance House (Bahrain) B.S.C. (Closed)** is a 93 % owned Islamic bank registered in the Kingdom of Bahrain since 2002. It has six branches and eight subsidiaries including an Islamic bank that operates in the Hashemite Kingdom of Jordan. Its activities include providing products and banking services that comply with Islamic Shareea'ah, management of investment accounts on profit sharing basis and providing Islamic finance contracts including retail services. Subsidiaries' activities include services and communication sectors and the real estate investment activities.

1.3 **Kuwait Turkish Participation Bank** is a 62% owned Islamic bank registered in Turkey since 1989. It has 114 branches and two wholly owned subsidiaries. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis. Subsidiaries' activities include real estate development. According to Fitch rating agency, Kuwait Turkish Participation has a rating of BBB- and F3 for the long and short term respectively.

1.4 **Muthanna Investment Company K.S.C. (Closed)** is a wholly owned investment company which has seven subsidiaries and ten associates. Its activities, which comply with Islamic Shareea'ah include investments, Islamic financing services, equity trading, private equity investments, real estate investments and asset management services.

1.5 **Aref Investment Group K.S.C. (Closed)** is a 52% owned investment company and is engaged in a wide variety of activities that include real estate investments, and Islamic financing activities which comply with Islamic Shareea'ah. Aref has 32 subsidiaries whose activities include the energy sector, educational services, medical services, transportation and information technology.

1.6 **Liquidity Management House K.S.C. (Closed)** is a wholly owned investment company. Its activities include financing activities, which comply with Islamic Shareea'ah, and high quality/low risk investments.

1.7 **KFH Private Equity** A wholly owned investment company registered at the Cayman Islands. Its main activities comprise global private equity investments.

1.8 **Al-Nakheel United Real Estate Company K.S.C. (Closed)** is a wholly owned real estate investment company. It is engaged in the owning, sale and purchase of real estate and development of the company's properties and land; and development of properties and land on behalf of others inside and outside Kuwait.

1.9 **Baitak Real Estate Investment K.S.C. (Closed)** is a wholly owned real estate investment company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.10 **Al Enmaa Real Estate Co. K.S.C. (Closed) is** a 51 % owned subsidiary engaged in real estate activities including operating leases.

1.11 **ALAFCO – Aviation Lease & Finance Co K.S.C. (Closed)** is a 52% owned subsidiary. Its main activities include the purchase and leasing of aircraft according to Islamic Shareea'ah principles.

1.12 **International Turnkey Systems Co K.S.C. (Closed)** is a 97% owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies. It owns subsidiaries that operate in more than 18 countries in Asia, Middle East and Africa.

1.13 **Development Enterprises Co. K.S.C. (Holding)** is a wholly owned subsidiary whose main activities include owning long-term strategic assets through investment or financing in companies with economic, industrial and other commercial activities.

2. Associates

2.1 **First Takaful Insurance Co. K.S.C. (Closed)** is a 27% owned associate company operating in the field of Islamic Takaful Insurance, advisory and technical research services related to reinsurance activities. In addition, investments are made through funds that comply with Islamic Shareea'ah.

2.2 **Liquidity Management Center K.S.C. (Closed)** is a 25% owned associate registered in the Kingdom of Bahrain, engaged in financing activities and high quality/low risk investments that comply with Islamic Shareea'ah principles.

2.3 **Sharjah Islamic Bank i**s a 20% owned bank registered in Sharjah – United Arab Emirates since 1975. It has 22 branches and its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

2.4 **Gulf Investment House K.S.C. (Closed)** is 20% owned associate. Its main activities include investment and financing activities and financial advisory services.

2.5 **First Investment Company K.S.C. (Closed)** is 9% owned associate established in the year 1997. It is one of the leading investment and financial institutions in Kuwait that conduct various investment activities and which comply with Islamic Shareea'ah principles. Among its various activities are private equities, investment in securities, and asset management.

Second: Capital Structure

The group capital comprises Tier 1 capital which demonstrates the group underlying strength and includes share capital, reserves and minority interest minus the treasury shares, goodwill and unconsolidated banking subsidiaries, significant minority interest and investment in insurance companies.

The group does not have structure or complex equity instruments.

Second: Capital Structure (Continued)

The total available capital as at 31 December 2009 was KD 1,384,367 thousand. Tier 1 (Core Capital) and Tier 2 amounted to KD 1,372,936 thousand and KD 11,431 respectively as disclosed below:

Capital Structure as at 31 December 2009	(KD' 000)
Tier (1) Core Capital	
1- Share Capital	230,542
2- Disclosed reserves	991,082
3-Minority interest in consolidated subsidiaries	324,138
Total (1)	**1,545,762**
Deduction from Tier (1) - Core Capital	
1- Treasury shares	36,662
2- Goodwill	54,842
3- Unconsolidated institutions	1,556
4-Significant minority investments	77,641
5-Investment in insurance entities	2,125
Total (2)	**172,826**
A) Total Tier (1) of capital	**1,372,936**
Tier (2) Supplementary Capital	
1- Asset revaluation reserves	2,033
2- Fair value reserves	(9,071)
3- General provisions	99,791
Total (3)	**92,753**
Deduction from Tier (2) Supplementary Capital	
4- Unconsolidated financial institutions	1,556
5- Significant minority investments	77,641
6- Investment in insurance entities	2,125
Total (4)	**81,322**
B) Total Tier (2) of capital	11,431
Total Available Capital	**1,384,367**

Third: Capital Adequacy Ratios

The Group's capital adequacy ratio as at 31 December 2009 is 15.21% compared to the ratio required by regulatory authorities of 12% amounting to KD 1,092,431 thousand. The excess over the required minimum capital represents 3.21% as at 31 December 2009. Tier 1 Capital ratio is 15.08%.

The Assets and Liabilities Committee (ALCO) acts as the highest supervisory committee in maintaining appropriate Capital Adequacy ratios through monitoring sources of funds and their distribution to the Bank's profit generating departments to achieve the targeted return on investments compared to the cost of funds in relation to financing and investment activities based on expected performance.

Third: Capital Adequacy Ratios (Continued)

Capital Adequacy ratio for banking subsidiaries

The Group's banking subsidiaries are subject to direct supervision by regulatory authorities of the country in which they are registered. Also, capital Adequacy Ratio (Basel II) is calculated as per the Central Bank of Kuwait circulated regulations to Islamic banks. The main Capital Adequacy information for the banking subsidiaries (Group) is as follows:

(KD' 000)

Banking Group	Capital Adequacy Ratio	Total Capital Base	Tier (1) of Capital	Tier (1)/ Risk Weighted Assets	Total Capital/ Risk Weighted Assets
Kuwait Finance House - Bahrain	17.71%	237,089	219,905	16.45%	17.71%
Kuwait Finance House - Malaysia	17.63%	163,062	153,143	16.56%	17.63%
Kuwait Turk Participation - Turkey	15.12%	156,910	158,065	15.02%	14.91%

Fourth: Risk Weighted Assets and Required Minimum Capital

1. Credit Risk

The minimum required capital for credit risk exposures was KD 947,230 thousand as at 31 December 2009 as detailed below:

(KD' 000)

Ser.	Exposures to Credit Risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash items	48,487	48,487	-	-
2	Claims on sovereigns	453,836	453,836	32,874	3,945
3	Claims on International organizations	-	-	-	-
4	Claims on public sector entities	75,097	75,097	12,945	1,553
5	Claims on multilateral development banks	-	-	-	-
6	Claims on banks	1,358,703	1,358,703	317,389	38,087
7	Claims on corporates	3,341,822	2,781,223	2,097,193	251,663
8	Regulatory retail exposures	1,235,659	1,214,367	918,817	110,258
9	Qualifying residential housing financing facilities	178,316	177,264	48,756	5,851
10	Past due exposures	420,638	390,406	266,449	31,974
11	Inventory and commodities	330,904	330,904	322,520	38,702
12	Real estate investments	609,664	609,664	958,660	115,039
13	Investment and financing with customers	2,179,557	1,273,196	1,568,392	188,207
14	Sukuk and taskeek	1,446	1,446	3,977	477
15	Other exposures	1,706,001	1,704,913	1,345,612	161,474
Total		**11,940,130**	**10,419,506**	**7,893,584**	**947,230**

2. Market Risk

Total risk weighted exposures are calculated by multiplying the required capital to cover market risk by 8.333 (converse of the minimum Capital Adequacy ratio of 12% which is set by the Central Bank of Kuwait), the result is added to risk weighted assets amount which is used to calculate the Capital Adequacy ratio of the bank.

Market Risk Weighted Exposure during the financial year 2009 amounted KD 447,208 thousand, based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 53,665 thousand.

2. Market Risk (Continued)

Methods used to mitigate exchange rate risks and which expose the Islamic bank to risk, include netting operations conducted on exchange of deposit transactions with banks and financial institutions.

3. Operational Risk

Operational risk weighted exposures calculated during the year 2009 amounted KD 762,799 thousand as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 91,536 thousand.

Fifth: Risk Management

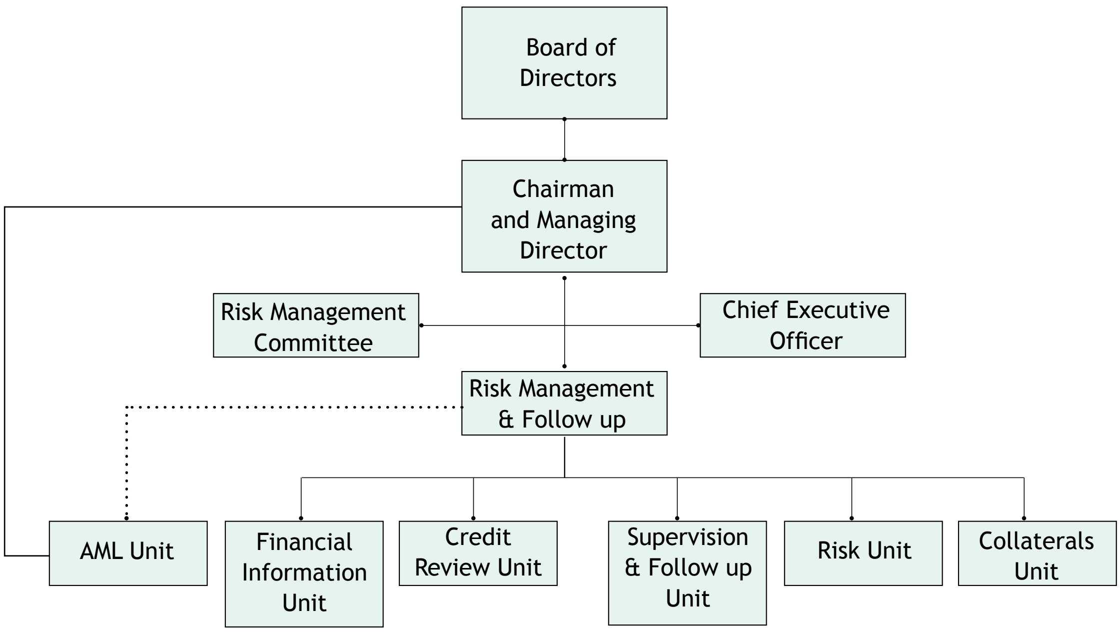
Risk management is an integral part of the Group's decision-making process. It is managed through a risk management committee, comprising members of senior management drawn from all key areas of the Group, who guide and assist with overall management of the Group's risks. Each individual within the Group is accountable for the risk exposures relating to their responsibilities.

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process.

1. Risk Management & Follow up Structure

The Board of Directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles.

The Board of Directors of the Bank receives a quarterly comprehensive risk report issued by risk management and follow up units. The report is designed to provide all information required to evaluate and determine the Group's risks.



Risk Management manager is entitled to contact the Board of Directors independently.

2. Risk Management Committee

The Bank's risk management committee has the overall responsibility for development of a risk strategy and implementing principles, frameworks, policies and limits. The risk management committee manages and monitors relevant risk exposures.

3. Risk Management Unit

The Bank's risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

4. Risk Management & Reporting Systems

The risk management committee is responsible for managing and monitoring risk exposures. The risk management unit measures risk through the use of risk models and provides reports to the risk management committee. The models use probabilities based on historical experiences adjusted to reflect the economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank's Board of Directors is willing to accept.

5. Types of Risks

The Group is exposed to various types of risks including credit, market or operational risks.

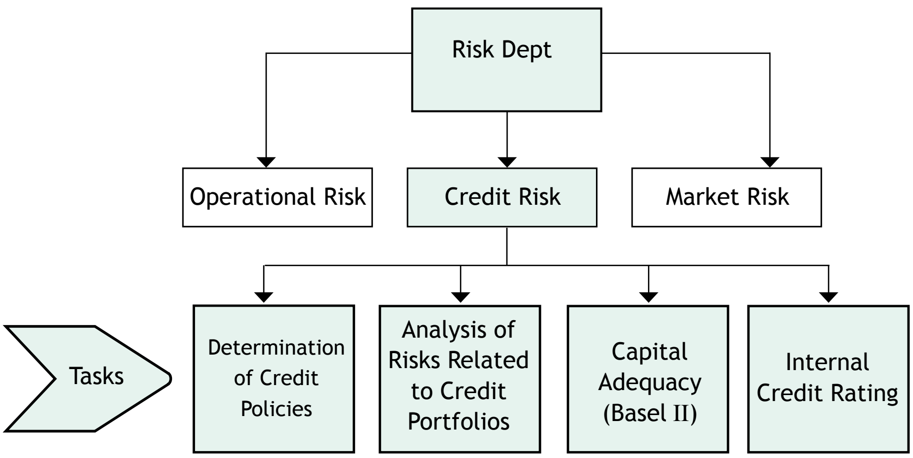
Following are the main risks which the Group is exposed to:

5.1 Credit Risks

Credit risks at Islamic Banks arise from receivables of Murabaha contracts, counter party defaults, counter parties in Istisnaa contracts, rentals in Ijara contracts and Sukuks held to maturity in the Bank's records or according to the regulatory classification standards for specialized finance.

Credit risk is one of the main risks to which the Group is exposed due to the size of the credit portfolio in relation to total assets. Accordingly, the Bank gives due care to evaluating such risks and establishing the policies and procedures to manage them.

Credit Risk Management Hierarchy



Credit Risk Framework

Policies and procedures organizing the functions of the credit risk units are dependent on four main pillars as follows:

A) Business harmony among segments that are authorized to provide credit facilities (profit generating departments), credit review unit and supervision and follow up unit should be aligned to achieve the set goals related to creditworthiness of customers and counter parties.

B) Setting credit limits of customers and counterparties should be based on creditworthiness, internal rating, credit concentration and economic activity.

C) Following up and preparing customer evaluations related to given credit facilities and the granted credit limits to cope with prevailing market conditions and the Bank's approved annual business plan.

D) Approve established policies and procedures based on the quantitative measurements, limitations and control systems over credit risk exposures.

Risk Department is responsible for drafting the policies and setting the procedures to avoid credit risks. Credit Review Unit is responsible for determining, measuring and monitoring credit portfolios. The Bank's internal evaluation mechanisms are being continuously developed using the most advanced technical systems to obtain a more accurate and professional rating taking into consideration the above main factors.

The Credit Review Committee meets on a monthly basis for profit generating departments in order to revise policies and procedures and approve presented credit facilities. Necessary reports comprising credit concentration, collaterals revaluation, unsecured and irregular debts are presented to the Credit Review Committee. Decisions are taken to reschedule facilities or to transfer impaired facilities to the Legal Department based on internal policies.

5.1.1 Net Credit Exposures classified as Rated or Unrated

(KD' 000)

Ser.	Description of Credit Risk Exposures	Net Credit Exposures	Rated Exposures	Unrated Exposures
1	Cash items	48,487	-	48,487
2	Claims on sovereigns	453,837	41,833	412,004
3	Claims on International organizations	-	-	-
4	Claims on public sector entities	75,097	1,817	73,280
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	1,358,703	628,379	730,324
7	Claims on corporates	2,781,223	566,183	2,215,040
8	Regulatory retail exposures	1,214,367	-	1,214,367
9	Qualifying residential housing financing facilities	177,264	-	177,264
10	Past due exposures	390,406	-	390,406
11	Inventory and commodities	330,904	-	330,904
12	Real estate investments	609,664	-	609,664
13	Investment and financing with customers	1,273,195	133,506	1,139,689
14	Sukuk and taskeek	1,446	1,446	-
15	Other exposures	1,704,913	-	1,704,913
Total		**10,419,506**	**1,373,164**	**9,046,342**

5.1.2 Total Credit Risk Exposures Classified as “Self Financed or Financed from Investment Accounts”:

(KD’ 000)

Ser.	Description of Credit Risk Exposures	Self Financed	Finance From Investment Accounts
1	Cash items	28,586	19,901
2	Claims on sovereigns	267,563	186,273
3	Claims on International organizations	-	-
4	Claims on public sector entities	44,274	30,823
5	Claims on multilateral development banks	-	-
6	Claims on banks	775,805	540,102
7	Claims on corporates	1,390,415	967,982
8	Regulatory retail exposures	712,562	496,073
9	Qualifying residential housing financing facilities	105,128	73,188
10	Past due exposures	247,440	172,264
11	Inventory and commodities	195,088	135,817
12	Real estate investments	358,772	249,770
13	Investment and financing with customers	1,279,672	890,885
14	Sukuk and taskeek	853	593
15	Other exposures	988,901	688,455
Total		**6,395,059**	**4,452,126**

Excess Risk Concentrations

Concentration risks arise when several counterparties are engaged in similar activities in the same geographical area or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Group’s performance to developments affecting a particular industry sector or geographical location.

In order to avoid excessive risk concentrations, the Bank’s policies and procedures include specific guidelines to focus on maintaining diversified portfolio, thus establishing control over certain credit risk concentrations. Hedging is used by the Bank to manage risk concentrations both at the relationship and industry levels.

The Bank depends on a group of CBK approved external rating agencies including S&P, Moody’s and Fitch to support internal ratings through setting credit lines.

5.1.3 Geographical Distributions for Credit Risk Exposure

(KD’ 000)

Ser.	Description of Credit Risk Exposures	MENA	North America	Western Europe	Asia	Others	Total
1	Cash items	36,449	-	11,333	705	-	48,487
2	Claims on sovereigns	174,471	-	77,841	201,524	-	453,836
3	Claims on International organizations	-	-	-	-	-	-
4	Claims on public sector entities	73,280	-	-	1,817	-	75,097
5	Claims on multilateral development banks	-	-	-	-	-	-
6	Claims on banks	1,080,030	6,763	175,287	86,903	9,720	1,358,703
7	Claims on corporates	1,452,546	313,764	1,065,127	462,858	47,527	3,341,822
8	Regulatory retail exposures	1, 079,629	15,818	140,212	-	-	1,235,659

5.1.3 Geographical Distributions for Credit Risk Exposure (Continued)

(KD' 000)

Ser.	Description of Credit Risk Exposures	MENA	North America	Western Europe	Asia	Others	Total
9	Qualifying residential housing financing facilities	29,389	4	148,923	-	-	178,316
10	Past due exposures	287,638	-	45,900	84,822	2,278	420,638
11	Inventory and commodities	96,700	-	113,646	120,558	-	330,904
12	Real estate investments	583,385	2,590	20,738	2,440	511	609,664
13	Investment and financing with customers	2,045,173	33,733	53,821	46,744	86	2,179,557
14	Sukuk and taskeek	1,446	-	-	-	-	1,446
15	Other exposures	1,445,428	48,987	157,916	48,740	4,930	1,706,001
	Total	**8,385,564**	**421,659**	**2,010,744**	**1,057,111**	**65,052**	**11,940,130**

5.1.4 Maturities of total "Credit Risk" Exposures

(KD' 000)

Ser.	Description of Credit Risk Exposures	Within 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
1	Cash items	47,781	-	-	-	706	**48,487**
2	Claims on sovereigns	393,977	10,110	2,485	33,774	13,490	**453,836**
3	Claims on international organizations	-	-	-	-	-	**-**
4	Claims on public sector entities	-	-	-	27,767	47,330	**75,097**
5	Claims on multilateral development Banks	-	-	-	-	-	**-**
6	Claims on banks	1,143,942	119,230	2,470	45,118	47,943	**1,358,703**
7	Claims on corporate	881,799	521,319	508,090	728,866	701,748	**3,341,822**
8	Regulatory retail exposures	131,352	73,045	85,581	706,824	238,857	**1,235,659**
9	Qualifying residential housing financing Facilities	1,523	4,525	7,531	120,220	44,517	**178,316**
10	Past due exposures	146,440	39,654	29,755	100,492	104,297	**420,638**
11	Inventory and commodities	1,110	4,556	720	2,326	322,192	**330,904**
12	Real estate investments	8,195	58,678	6,011	239,479	297,301	**609,664**
13	Investment and financing with customers	516,270	458,096	430,570	569,570	205,051	**2,179,557**
14	Sukuk and taskeek	1,446	-	-	-	-	**1,446**
15	Other exposures	172,241	11,834	108,519	491,761	921,646	**1,706,001**
Total		**3,446,076**	**1,301,047**	**1,181,732**	**3,066,197**	**2,945,078**	**11,940,130**

5.1.5 Main Sectors of Total Credit Risk Exposures

(KD' 000)

Ser.	Description of Credit Risk Exposures	Manufacturing & Trade	Banks and Financial Institutions	Construction & Real Estate	Government	Others	Total
1	Cash items	-	16,375	-	-	32,112	**48,487**
2	Claims on sovereigns	-	77,856	-	263,093	112,887	**453,836**
3	Claims on international organizations	-	-	-	-	-	**-**
4	Claims on public sector entities	-	-	-	-	75,097	**75,097**
5	Claims on multilateral development banks	-	-	-	-	-	**-**
6	Claims on Banks	-	802,951	-	507,634	48,118	**1,358,703**
7	Claims on corporates	1,143,620	704,350	580,921	7,934	904,997	**3,341,822**
8	Regulatory retail exposures	57,962	2,206	37,801	-	1,137,690	**1,235,659**
9	Qualifying residential housing financing facilities	29	-	17	-	178,270	**178,316**
10	Past due exposures	79,950	29,636	85,897	-	225,155	**420,638**
11	Inventory and commodities	3,046	-	1,110	-	326,748	**330,904**
12	Real estate investments	-	57,383	401,154	-	151,127	**609,664**
13	Investment and financing with Customers	147,116	37,307	959,905	-	1,035,229	**2,179,557**
14	Sukuk and taskeek	-	1,446	-	-	-	**1,446**
15	Other Exposures	31,869	509,067	619,172	-	545,893	**1,706,001**
Total		**1,463,592**	**2,238,577**	**2,685,977**	**778,661**	**4,773,323**	**11,940,130**

5.1.6 General and Specific Provisions

The analysis of general and specific provisions is based on CBK requirements. In March 2007, the Central Bank of Kuwait issued a circular amending the basis of making general provisions on facilities changing the rate from 2% to 1% for cash facilities and from 2% to 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. General provision in excess of current ratio by 1% for cash facilities and 0.5% for non-cash facilities has been retained as general provision until a further directive from CBK is issued.

The process of calculating specific provisions on facilities is done by classification of irregular facilities into the following two categories based on the value of which specific provision is taken:

A) **Past due credit facilities:** These are defined as facilities which are overdue for 90 days or less (inclusive). These facilities are known as the "Watchlist Category" and no specific provision is taken against them.

5.1.6 General and Specific Provisions (Continued)

B) **Impaired credit facilities, these are classified into the following four categories:**

- **WatchList Category Requiring Specific Provisions:** These irregular facilities are overdue for 90 days or less (inclusive). Specific provision percentage is determined based on the evaluation of the concerned Department / Sector management.
- **Sub-standard:** If facilities are irregular for a period of 91 – 180 days (inclusive), a provision rate of minimum 20% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.
- **Doubtful Debts:** If debts are irregular for a period of 181 – 360 days (inclusive),a provision rate of minimum 50% shall be applied on the total of the past due facilities net of deferred and suspended profit and eligible collateral.
- **Bad Debts:** If debts are irregular for more than 360 days or are subject to legal procedures, a provision rate of 100% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.

5.1.6.1 Irregular Financing Facilities Exposures In Accordance With Standard Portfolios

(KD' 000)

Ser.	Description Of Credit Risk Exposures	Irregular Debts		Specific provision	Net Debt	Specific Provisions Write Off
		Impaired	Past Due			
1	Cash items	-	-	-	-	-
2	Claims on sovereigns	-	-	-	-	-
3	Claims on international organizations	-	-	-	-	-
4	Claims on public sector entities	-	-	-	-	-
5	Claims on multilateral development banks	-	-	-	-	-
6	Claims on banks	2,135	1,941	627	3,449	-
7	Claims on corporates	162,800	373,575	38,074	498,301	-
8	Regulatory retail exposures	478,576	31,557	156,963	353,170	-
9	Qualifying residential housing financing Facilities	-	-	-	-	-
10	Past due exposures	-	-	-	-	-
11	Inventory and commodities	-	-	-	-	-
12	Real estate investments	-	-	-	-	-
13	Investment and financing with customers	10,050	147,452	2,766	154,736	-
14	Sukuk and taskeek	-	-	-	-	-
15	Other Exposures	43,202	2,516	20,108	25,610	-
Total		**696,763**	**557,041**	**218,538**	**1,035,266**	**-**

5.1.6.2 Irregular Financing Facilities Exposures Based on Geographical Distribution

(KD' 000)

Ser.	Description of Credit Risk Exposures	Irregular Debts		Specific Provision	Net Debt	Specific Provisions Write Off
		Impaired	Past Due			
1	MENA	555,672	353,870	187,927	721,615	-
2	North America	-	-	-	-	-
3	Western Europe	74,135	144,142	18,254	200,023	-
4	Asia	65,251	57,527	12,049	110,729	-
5	Others	1,705	1,502	308	2,899	-
Total		**696,763**	**557,041**	**218,538**	**1,035,266**	**-**

5.1.6.3 Irregular Financing Facilities Exposures According to Sectors

(KD' 000)

Ser.	Description of Credit Risk Exposures	Irregular Debts		Specific Provision	Net Debt	Specific Provisions Write Off
		Impaired	Past Due			
1	Manufacturing and trade	110,460	132,129	31,602	210,987	-
2	Banks and financial institutions	56,468	19,172	23,875	51,765	-
3	Constructions & real estate	37,878	97,999	9,389	126,488	-
4	Government	-	-	-	-	-
5	Others	491,957	307,741	153,672	646,026	
Total		**696,763**	**557,041**	**218,538**	**1,035,266**	**-**

5.1.6.4 General Provision Charged to the Statement of Income

(KD' 000)

Ser.	Description of Credit Risk Exposures	General Provision	Statement of Income
1	Cash items	-	-
2	Claims on sovereigns	-	-
3	Claims on international organizations	-	-
4	Claims on public sector entities	1,982	389
5	Claims on multilateral development banks	-	-
6	Claims on banks	619	121
7	Claims on corporates	88,576	17,355
8	Regulatory retail exposures	39,187	7,678
9	Qualifying residential housing financing facilities	5,114	1,002
10	Past due exposures	-	-
11	Inventory and commodities	-	-
12	Real estate investments	-	-
13	Investment and financing with customers	52,734	10,332
14	Sukuk and taskeek	-	-
15	Other exposures	1,917	376
Total		**190,129**	**37,253**

5.1.6.5 General and Limited Specific Provisions Movement during the Year

(KD' 000)

Ser.	Description of Credit Risk Exposures	General Provision	Statement of Income	Total
1	Opening balance	159,585	173,723	333,308
2	Charged during the year	37,253	65,284	102,537
3	Refunds	-	-	-
4	Write offs during the year	(6,709)	(20,422)	(27,131)
5	Collection of debts purchased by Central Bank of Kuwait	-	(47)	(47)
Total		**190,129**	**218,538**	**408,667**

5.1.7 Applicable Risk Mitigation Methods

Kuwait Finance House ensures the diversification of exposures according to standard portfolios, business sectors and geographical distributions borders. In addition to the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Eligible collaterals and guarantees are calculated as per CBK instructions. Netting is applied for exchange of deposits with banks and financial institutions. Bank guarantees are used to redirect risks to claim on banks portfolio. Standard Supervisory Haircuts are applied on Eligible Collaterals according to the Central Bank of Kuwait regulations in relation to Basel II standard.

KFH's compliance with the credit concentration limits per customer (15%) and total financing portfolio (85%) and maintaining adequate ratios of liquid assets (18%) provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

5.1.7.1 Collaterals Unit

Collaterals unit reports related to Risk & Follow up Department. The unit is responsible for monitoring collaterals through the following steps:

A- Receipt of collateral documents and entry of information in the system based on the contracts concluded with customers.

B- Examination of methods and procedures to file original documents based on sound business practices.

C- Use of collateral amounts to prepare periodical reports including collateral coverage ratios based on collaterals policy and the special conditions provided in the credit approval. Accordingly, provisions required for the bank are calculated.

D- Follow up of standard evaluation procedures of various collaterals and update information in the automated system.

E- Follow up of renewal process of real estate mortgages, validity of L/Gs and insurance policies and blocking customer accounts to preserve the bank's rights.

F- Ensure completion of mortgage cancellation, transfer of title and return of original documents to customers upon settlement of the debt.

5.1.7.1.1 Acceptable Risk Mitigation Methods

(KD' 000)

Ser.	Risk Mitigation Methods	Total Risk Mitigation Methods	Net Risk Mitigation Methods After Haircuts
1	Cash collaterals	153,860	153,860
2	Bank guarantees	4,491	4,491
3	Shares	725,981	544,486
4	Leased assets (commercial)	1,391,510	719,073
5	Real estate and land	103,205	103,205
Total		**2,379,047**	**1,525,115**

5.1.7.1.2 Eligible Collaterals and Banking Guarantees Given Against Credit Risk Exposure

(KD' 000)

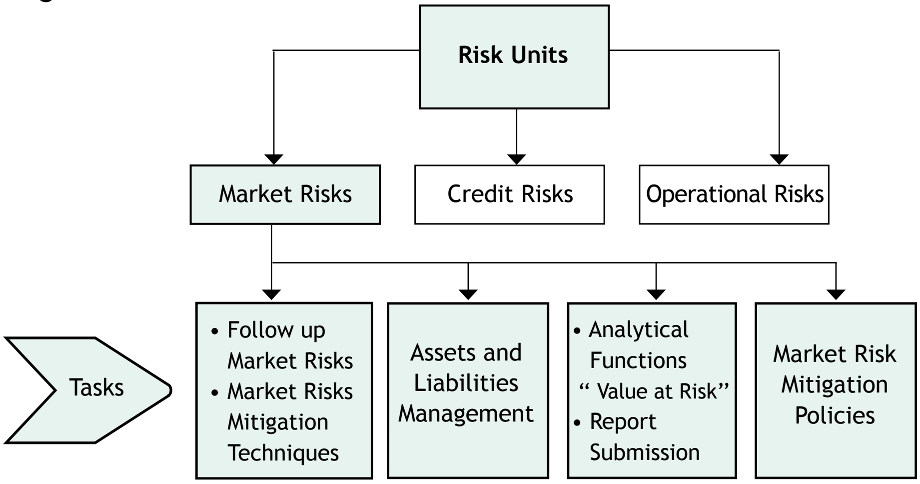
Ser.	Description of Credit Risk Exposures	Total Credit Exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	48,487	-	-
2	Claims on sovereigns	453,836	-	-
3	Claims on international organizations	-	-	-
4	Claims on public sector entities	75,097	-	-
5	Claims on multilateral development banks	-	-	-
6	Claims on banks	1,358,703	-	-
7	Claims on corporates	3,341,822	560,598	-
8	Regulatory retail exposures	1,235,659	21,292	-
9	Qualifying residential housing financing facilities	178,316	1,052	-
10	Past due exposures	420,638	30,232	-
11	Inventory and commodities	330,904	-	-
12	Real estate investment	609,664	-	-
13	Investment and financing with customers	2,179,557	906,362	4,491
14	Sukuk and taskeek	1,446	-	-
15	Other exposures	1,706,001	1,088	-
Total		**11,940,130**	**1,520,624**	**4,491**

5.2 Market Risks

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Pursuant to the Central Bank of Kuwait Basel II regulations, market risks comprise the risks of exchange rates, equity risks, and commodity positions risks.

Market risks that Kuwait Finance House is exposed to are limited as all Islamic financing and investment transactions are interest free. Islamic finance contracts i.e. Mudarabah and Musharakah are based on profit and loss sharing. Other Islamic finance transactions are related to real economic transactions such as purchase of merchandise and goods through Murabahah, Istisnaa, Ijara or Salam transactions.

5.2.1 Market Risk Unit Organization Structure



5.2.2 Market Risk Frameworks

Kuwait Finance House (The Bank) is mainly exposed to exchange rate risks in and off Balance Sheet. The Treasury Department with Assets and Liabilities Committee (ALCO) - manages on and off balance sheet exposures, and provides the required support to ensure funds flow between KFH departments or between KFH and external parties on a daily basis.

Risk Unit monitors market risks by calculating the Value at Risk (VAR methodology) to determine the quantitative standards, especially in the ordinary market conditions. This calculation enforces ALCO with unified and stable standards that allow for comparisons between standard market conditions and the current market conditions. VAR is calculated by using a confidence factor of 99% and a holding period of ten (10) working days according to Basel II standard.

5.2.3 Capital Exposures

Investments in subsidiaries and minority holdings are considered as long term strategic investments due to the volume of investments and its size compared to available capital. These investments are considered as "Available for Sale", meanwhile, other remaining investments are considered as short and mid-term investments. Accordingly, both investment exposures are recorded in the Banking Portfolio.

The Investment portfolio is considered as "Available for Sale", recorded at fair value and variations in fair value are entered in the fair value reserve until investment is redeemed or impaired. As for the unquoted investments, they are recorded at cost price net of with impairment.

Capital Exposures as Follows:

(KD' 000)

Description	Details	Total
Total investments disclosed in the Balance Sheet		**1,452,864**
A- Long term held to maturity investments	404,834	
B- Short and mid-term investments (less provisions)	1,048,030	
Realized cumulative Profit (loss) resulting from sales and liquidation during the report period.	49,444	
Unrealized profit (loss) recorded directly in the consolidated comprehensive income statement.	(88,644)	

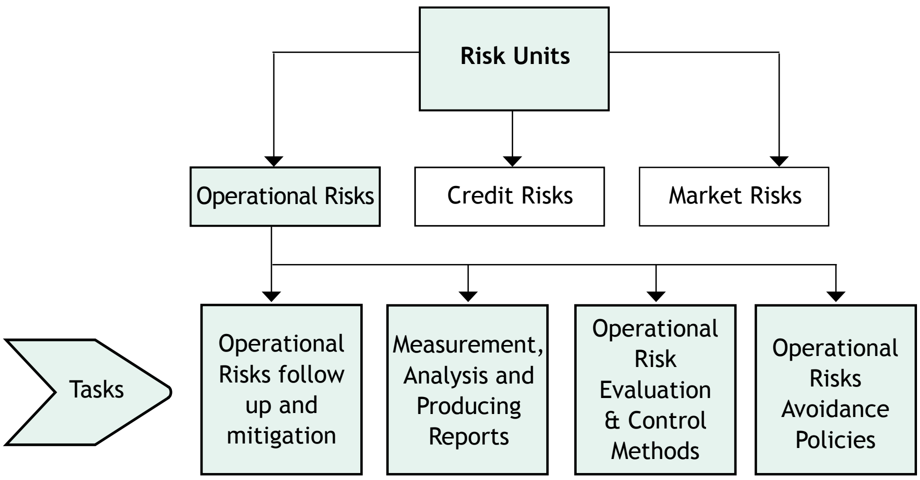
5.3 Operational Risks

Operational risks are defined as the loss risks resulting from the default or failure of internal procedures, individuals and systems or due to external events including losses resulting from failure to comply with Shareea'ah requirements.

Additional operational risks to which the Islamic bank is exposed to are represented in the Shareea'ah violations which might occur. Shareea'ah regulations are disclosed in Paragraph No. 7 (Shareea'ah Regulations)

5.3.1 Administrative Structure of Operational Risks Unit

Administrative structure of operational risks unit is as follows:



5.3.2 Operational Risk Frameworks

Risk management determines types of operational risks for the following objectives:

A- Assist various Kuwait Finance House departments whether back up departments or profit departments to determine the types of operational risks associated to their functions and the means of avoiding or mitigating such risks through the development of appropriate controls.

B- Submit a "qualitative and quantitative" report to KFH top management on risks and control environment at KFH departments.

C- Provide basis for evaluating controls whether those are existing or required in order to avoid expected operational risks.

Control departments work side by side with the risk department to identify operational risks, ensuring safety and efficiency of internal audit tools and techniques, and verifying compliance with internal and external supervisory entities.

Sixth: Investment Accounts

Kuwait Finance House receives deposits from customers as part of several unrestricted investment accounts “On Balance Sheet” and restricted “Off Balance Sheet”.

In Unrestricted Deposits, these are invested by Kuwait Finance House as Mudarib investing funds for limited or renewable periods at various investment ratios. Funds are invested in all finance activities that will achieve targeted return. Investment returns are distributed among Kuwait Finance House as a Mudarib and investment account holders on proportionate basis for each type of these accounts and the elapsed investment period.

Kuwait Finance House acts as an investment agent in restricted deposits. Such funds are invested based on determined maturity periods in pre-determined investment and finance activities with customers (depositors). Certain fees are charged on the investment of such funds.

Customers’ deposits are received and invested according to certain regulations that are mentioned in the procedures manual and instructions guide to ascertain that these funds, whether they were in Kuwaiti Dinar or foreign currency are invested according to Islamic Shareea’ah principles.

Seventh: Shareea’ah Regulations

Shareea’ah Control Department (SCD) is considered one of the main departments at Kuwait Finance House. The department monitors and executes Shareea’ah decisions issued by the Al-Fatwa and Shareea’ah Control Committee as per certain rules and regulations approved by the Al-Fatwa & Shareea’ah Control Committee at Kuwait Finance House. The committee supervises the implementation of such regulations on daily operations and answers all inquiries concerning issued Shareea’ah decisions.

Certain Non-Shareea’ah compliant funds are realized from dealing with conventional banks and sale of un-owned in Murabahas. Entries, agreements, products and advertising materials...etc are reviewed by Shareea’ah auditors through periodical review sessions conducted during the year. Such funds are deposited in certain accounts and spent in public affairs other than the construction of Mosques and printing of Qura’an as per Shareea’ah committee opinion.

Shareea’ah Control Department, represented by Shareea’ah Audit Unit, conducts audit on Kuwait Finance House activities. The committee presents its report to the general assembly in its annual general assembly meeting.

Zakat is calculated annually in cooperation with Zakat House and other internal control departments. KFH Zakat value for the year 2009 and released from voluntary reserves for the year 2010 amounted KD 11,746 thousand.

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
KUWAIT FINANCE HOUSE K.S.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the related consolidated income statement, consolidated statements of comprehensive 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 at 31 December 2009, 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/RBA/44/2009 dated 15 June 2009, 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/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the 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 2009.

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

JASSIM AHMAD AL-FAHAD
Licence NO. 53 A
DELOITTE
AL-FAHAD & CO.

11 January 2010
Kuwait

CONSOLIDATED INCOME STATEMENTS Year ended 31 December 2009

	Note	2009 KD 000's	2008 KD 000's	2009 USD 000's	2008 USD 000's
INCOME					
Financing income		528,411	561,271	1,841,795	1,956,330
Investment income	3	111,613	209,897	389,031	731,603
Fee and commission income		63,406	70,140	221,004	244,475
Net (loss) gain of foreign currencies		(2,250)	13,547	(7,842)	47,219
Other income		65,523	29,998	228,383	104,559
		766,703	884,853	2,672,371	3,084,186
EXPENSES					
Staff costs		111,893	96,254	390,007	335,497
General and administrative expenses		86,757	70,873	302,395	247,030
Finance costs		54,543	81,194	190,112	283,005
Depreciation		40,031	28,547	139,529	99,502
Impairment	4	203,885	210,940	710,648	735,239
		497,109	487,808	1,732,691	1,700,273
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		269,594	397,045	939,680	1,383,913
Distribution to depositors		192,584	216,800	671,258	755,664
PROFIT AFTER DISTRIBUTION		77,010	180,245	268,422	628,249
Contribution to Kuwait Foundation for the Advancement of Sciences		1,239	1,626	4,319	5,667
National Labor Support tax		3,394	2,573	11,830	8,968
Zakat (based on Zakat Law No. 46/2006)		397	1,234	1,384	4,301
Directors' fees	19	160	160	558	558
PROFIT FOR THE YEAR		71,820	174,652	250,331	608,755
Attributable to:					
Equity holders of the Bank		118,741	156,960	413,876	547,090
Non-controlling interests		(46,921)	17,692	(163,545)	61,665
		71,820	174,652	250,331	608,755
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK	5	52.0 fils	68.1 fils	18.1 Cents	23.7 Cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2009

	Note	2009 KD 000's	2008 KD 000's	2009 USD 000's	2008 USD 000's
Profit before distribution to depositors		**269,594**	397,045	**939,680**	1,383,913
Other comprehensive (loss) income					
Change in fair value of available for sale investments	15	(88,644)	(48,318)	(308,972)	(168,414)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	15	(2,444)	-	(8,519)	-
Loss (gain) realised during the year	15	672	(59,253)	2,342	(206,528)
Impairment losses transferred to the consolidated income statement	15	49,210	33,000	171,523	115,023
Share of other comprehensive loss of associates	15	(3,785)	(878)	(13,193)	(3,060)
Exchange differences on translation of foreign operations	16	15,079	(9,520)	52,558	(33,182)
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		**(29,912)**	(84,969)	**(104,261)**	(296,161)
Total comprehensive income before estimated distribution to depositors		**239,682**	312,076	**835,419**	1,087,752

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION At 31 December 2009

	Note	2009 KD 000's	2008 KD 000's	2009 USD 000's	2008 USD 000's
ASSETS					
Cash and balances with banks and financial institutions	6	444,943	368,062	1,550,864	1,282,893
Short-term international Murabaha		1,257,573	1,312,153	4,383,315	4,573,555
Receivables	7	5,090,398	4,779,788	17,742,761	16,660,119
Trading properties		126,386	57,590	440,523	200,732
Leased assets	8	1,288,066	1,181,825	4,489,599	4,119,292
Investments	9	1,042,026	1,038,602	3,632,018	3,620,084
Investments in associates	10	410,838	449,496	1,431,990	1,566,734
Investment properties	11	506,464	279,574	1,765,298	974,465
Other assets		522,394	485,713	1,820,823	1,692,970
Property and equipment	12	601,606	591,339	2,096,919	2,061,133
TOTAL ASSETS		11,290,694	10,544,142	39,354,110	36,751,977
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY					
LIABILITIES					
Due to banks and financial institutions	13	1,460,925	1,595,452	5,092,105	5,561,005
Depositors' accounts	14	7,261,827	6,611,556	25,311,352	23,044,810
Other liabilities		563,451	394,033	1,963,930	1,373,416
TOTAL LIABILITIES		9,286,203	8,601,041	32,367,387	29,979,231
DEFERRED REVENUE		464,602	344,426	1,619,387	1,200,509
FAIR VALUE RESERVE	15	(33,597)	11,394	(117,104)	39,714
FOREIGN EXCHANGE TRANSLATION RESERVE	16	7,531	(7,548)	26,250	(26,309)
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK					
Share capital	17	230,542	205,841	803,562	717,466
Share premium	18	464,766	464,766	1,619,958	1,619,958
Proposed issue of bonus shares	19	18,443	24,701	64,284	86,096
Treasury shares	17	(36,662)	(7,651)	(127,787)	(26,668)
Reserves	18	507,871	470,502	1,770,202	1,639,951
		1,184,960	1,158,159	4,130,219	4,036,803
Proposed cash dividend	19	56,857	82,124	198,177	286,246
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		1,241,817	1,240,283	4,328,396	4,323,049
Non-controlling interests		324,138	354,546	1,129,794	1,235,783
TOTAL EQUITY		1,565,955	1,594,829	5,458,190	5,558,832
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		11,290,694	10,544,142	39,354,110	36,751,977

BADER ABDUL MUHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2009

	Attributable to equity holders of the bank				Reserves										
	Share Capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Treasury shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Employee share options reserve KD 000's	Treasury shares reserve KD 000's	Sub total KD 000's	Profit for the year KD 000's	Sub total KD 000's	Proposed cash dividend KD 000's	Sub total KD 000's	Non - Contolling interest KD 000's	Total equity KD 000's
At 31 December 2007	171,534	464,735	34,307	-	214,589	208,093	4,237	1,006	427,925	-	1,098,501	111,498	1,209,999	196,095	1,406,094
Issue of bonus shares	34,307	-	(34,307)	-	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	31	-	-	-	-	-	-	-	-	31	-	31	-	31
Zakat	-	-	-	-	-	(7,558)	-	-	(7,558)	-	(7,558)	-	(7,558)	-	(7,558)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(111,498)	(111,498)	-	(111,498)
Profit for the year	-	-	-	-	-	-	-	-	-	156,960	156,960	-	156,960	17,692	174,652
Distribution of profit:															
Proposed issue of bonus shares	-	-	24,701	-	-	-	-	-	-	(24,701)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(82,124)	(82,124)	82,124	-	-	-
Transfer to statutory reserve	-	-	-	-	16,255	-	-	-	16,255	(16,255)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	33,880	-	-	33,880	(33,880)	-	-	-	-	-
Net movement in treasury shares	-	-	-	(7,651)	-	-	-	-	-	-	(7,651)	-	(7,651)	-	(7,651)
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	140,759	140,759
At 31 December 2008	205,841	464,766	24,701	(7,651)	230,844	234,415	4,237	1,006	470,502	-	1,158,159	82,124	1,240,283	354,546	1,594,829
Issue of bonus shares	24,701	-	(24,701)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	-	(9,464)	-	-	(9,464)	-	(9,464)	-	(9,464)	-	(9,464)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(82,124)	(82,124)	-	(82,124)
Profit for the year	-	-	-	-	-	-	-	-	-	118,741	118,741	-	118,741	(46,921)	71,820
Distribution of profit:															
Proposed issue of bonus shares	-	-	18,443	-	-	-	-	-	-	(18,443)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	56,857	-	-	-
Transfer to statutory reserve	-	-	-	-	12,393	-	-	-	12,393	(12,393)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	31,048	-	-	31,048	(31,048)	-	-	-	-	-
Net movement in treasury shares	-	-	-	(29,011)	-	-	-	-	-	-	(29,011)	-	(29,011)	-	(29,011)
Profit on sale of treasury shares	-	-	-	-	-	-	-	3,392	3,392	-	3,392	-	3,392	-	3,392
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	16,513	16,513
At 31 December 2009	**230,542**	**464,766**	**18,443**	**(36,662)**	**243,237**	**255,999**	**4,237**	**4,398**	**507,871**	**-**	**1,184,960**	**56,857**	**1,241,817**	**324,138**	**1,565,955**

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

CONSOLIDATED STATEMENT OF CASH FLOWS Year ended 31 December 2009

	Note	2009 KD 000's	2008 KD 000's	2009 USD 000's	2008 USD 000's
OPERATING ACTIVITIES					
Profit for the year		71,820	174,652	250,331	608,755
Adjustment for:					
Depreciation		40,031	28,547	139,529	99,502
Impairment		203,885	210,940	710,648	735,239
Dividend income		(18,260)	(19,910)	(63,646)	(69,397)
Gain on part sale of associates and subsidiaries		(34,821)	(16,466)	(121,370)	(57,393)
Gain on sale of investments		(14,623)	(72,284)	(50,969)	(251,948)
Share of results of associates		28,724	(42,991)	100,119	(149,847)
Other investment income		(24,263)	(2,217)	(84,570)	(7,727)
		252,493	260,271	880,072	907,184
Changes in operating assets and liabilities					
(Increase) decrease in operating assets:					
Exchange of deposits		12,857	(6,633)	44,814	(23,120)
Receivables		(442,723)	(513,954)	(1,543,127)	(1,791,405)
Trading properties		(7,451)	68,823	(25,971)	239,885
Leased assets		(113,123)	(260,055)	(394,294)	(906,431)
Other assets		(61,442)	(246,348)	(214,158)	(858,655)
Increase (decrease) in operating liabilities:					
Due to banks and financial institutions		(134,527)	409,062	(468,899)	1,425,800
Depositors' accounts		650,271	1,250,401	2,266,542	4,358,316
Other liabilities		183,487	154,104	639,550	537,135
Net cash from operating activities		339,842	1,115,671	1,184,529	3,888,709
INVESTING ACTIVITIES					
Purchase of investments, net		(70,634)	(191,339)	(246,197)	(666,919)
Purchase of investment properties, net		(56,614)	(31,104)	(197,330)	(108,414)
Purchase of property and equipment, net		(221,820)	(211,039)	(773,161)	(735,584)
Purchase of investments in associates, net		(16,055)	(68,922)	(55,960)	(240,230)
Dividend income received		20,996	26,789	73,182	93,374
Net cash used in investing activities		(344,127)	(475,615)	(1,199,466)	(1,657,773)
FINANCING ACTIVITIES					
Cash dividends paid		(82,124)	(111,498)	(286,246)	(388,630)
Cash received on cancellation of share options		-	31	-	108
Payment of Zakat		(9,464)	(7,558)	(32,987)	(26,344)
Net movement in treasury shares		(25,619)	(7,651)	(89,296)	(26,668)
Net cash used in financing activities		(117,207)	(126,676)	(408,529)	(441,534)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(121,492)	513,380	(423,466)	1,789,402
Cash and cash equivalents at 1 January		1,368,185	854,805	4,768,857	2,979,453
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	1,246,693	1,368,185	4,345,391	4,768,855

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

1 - ACTIVITIES

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Bank's Board of Directors on 11 January 2010 and are subject to approval by the Central Bank of Kuwait. The general assembly of the Equity holders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 20. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practicing usury. Trading activities are conducted on the basis of purchasing various goods and selling them on Murabaha at negotiated profit margins which can be settled in cash or on installment credit basis. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic Shareea'ah, as approved by the Bank's Al-Fatwa and Shareea'ah Supervisory Board.

The Bank operates through 48 local branches (2008: 46) and employed 2,109 employees as of 31 December 2009 (2008: 2,032) of which 1,287 (2008: 1,167) are Kuwaiti nationals representing 61% (2008: 57%) of the Bank's total work force.

2 - SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments, currency swaps and profit rate swaps, and forward foreign exchange contracts.

The accounting policies are consistent with those used in the previous year except as follows:

IAS 1 Presentation of Financial Statements
The revised standard requires an entity to present all owner changes in equity and all non-owner changes (i.e. change in fair value reserve and foreign exchange translation reserve) to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The Bank has elected to present consolidated comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of consolidated comprehensive income has been disclosed in the notes to the consolidated financial statements.

IFRS 8 Operating Segments
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 24, including the related revised comparative information.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

IAS 40 Investment Properties (revised):
The improvements to IFRS project revised the scope of IAS 40 'Investment properties' such that property under construction or development for future use as an investment property is classified as investment property. Since the Group follows the 'cost model', property under construction or development would be carried at cost less impairment, if any, at each reporting date.

Improvements to IFRSs
In May 2008 and April 2009 the IASB has issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Bank has decided not to early adopt the amendments and does not expect that their application to have significant effect.

New and revised International Accounting Standards Board (IASB) Standards and International Financial Reporting Interpretation Committee Interpretations (IFRIC) issued, but not yet adopted

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 be 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 consolidated income statement in the years in which the costs are incurred and the services received, except for the cost of issue of equity (recognized directly in equity). Currently the Group recognizes 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 income statement.

IFRS 9 Financial Instruments - (Effective from 1 January 2013)
On 13 November 2009, the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. IASB intends that IFRS 9 will ultimately replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, IASB divided its project to replace IAS 39 into three main phases. As the IASB completes each phase, as well as its separate project on the derecognition of financial instruments, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that replace the requirements in IAS 39. IASB aims to replace IAS 39 in its entirety by the end of 2010. The Group has not early adopted this standard for year ended 31 December 2009.

Basis of consolidation
The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2009 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 20. All significant intra-group balances, transactions and unrealized profits are eliminated upon consolidation.

Since the subsidiaries' financial statements used in the consolidation are drawn up to different reporting dates, adjustments are made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and the Bank's reporting date.

Certain consolidated subsidiaries use accounting policies other than that adopted in the consolidated financial statements for certain transactions and assets. Hence, appropriate adjustments for non-uniform accounting policies are made to their financial statements when included in the consolidated financial statements to bring them in line with Group accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated financial position, separately from the Equity holders of the Bank. Acquisition of non-controlling interests are accounted for using the parent company extension

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognized directly in the consolidated income statement in the year of acquisition.

Revenue recognition

i) Income from Murabaha, Istisna'a and Wakala is recognized on a weighted time apportionment basis and is included under financing income.

ii) Income from leased assets is recognized on a pattern reflecting a constant periodic return on the net investment outstanding and is included under financing income.

iii) Operating lease income is recognized on a straight line basis in accordance with the lease agreement.

iv) Rental income from investment properties is recognized on an accruals basis.

v) Dividend income is recognized when the right to receive payment is established.

vi) Fee and commission income is recognized at the time the related services are provided.

Cash and cash equivalents

Cash and cash equivalents comprise cash, Tawarruq balances with the Central Bank of Kuwait, balances with foreign Central Banks, balances with banks and financial institutions and short-term international Murabaha contracts and exchange of deposits maturing within three months of contract date.

Short-term international Murabaha

Short-term international Murabaha are financial assets originated by the Group and represent commodity Murabaha transactions with high credit quality international banks and financial institutions maturing within three months of the financial position date. These are stated at amortized cost.

Receivables

Receivables are financial assets originated by the Group and principally comprise Murabaha, Istisna'a, and Wakala receivables. These are stated at amortized cost.

Murabaha is the sale of commodities and real estate at cost plus an agreed profit mark up whereby the seller informs the purchaser of the price at which he purchases the product and also stipulates an amount of profit.

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by installments or deferred to a specific future time.

Wakala is an agreement whereby the Group provides a sum of money to a customer under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount in case of default, negligence or violation of any terms and conditions of the wakala.

Trading properties

Trading properties are measured initially at cost. Subsequent to initial recognition, trading properties are carried at the lower of cost or net realizable value determined on an individual basis.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the estimated useful life of the asset.

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

Group as a lessor

Leased assets

This represents net investment in assets leased for periods which either approximate or cover a major part of the economic lives of such assets. The lease agreements provide a purchase option to lessees at a price equal or expected to be equal or lower than fair value of such assets at the time when such option is exercised.

Operating leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Leased assets are stated at amounts equal to the net investment outstanding in the leases

Investments
Available for sale investments include equity and debt securities (i.e. Sukook). Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

Investments are initially recognized at cost (including transaction costs associated with the acquisition of the investment) and after initial measurement, available for sale investments are subsequently measured at fair value unless fair value cannot be reliably determined. Changes in fair value of available for sale are reported in other comprehensive income until the investment is derecognised, at which time the cumulative change in fair value reserve is recognised in consolidated income statement, or determined to be impaired, at which time the cumulative change in fair value reserve is recognised in the consolidated income statement in impairment of investment and removed from fair value reserve.

Investments in associates
An associate is an entity over which the Group exerts significant influence. Investments in associates are accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group recognizes in the consolidated income statement its share of the total recognized profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity. The Group's share of those changes is recognized directly in equity, fair value reserve or foreign exchange translation reserve as appropriate.

Unrealized gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognized in prior years no longer exist.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

The associate's financial statements are prepared either to the Bank's reporting date or to a date not earlier than three months of the Bank's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the associates and the Bank's reporting date.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost less provisions for impairment.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the year of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to property and equipment, the deemed cost for subsequent accounting is the carrying value at the date of change in use. If property and equipment becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

When the Group begins to redevelop an existing investment property with a view to selling the property, it is transferred to trading properties at carrying value.

Depreciation is provided on a straight-line basis over the estimated useful lives of all rental properties other than freehold land which is deemed to have an indefinite life.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings 20-25 years

Properties under construction

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under development are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. 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 recognized 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 consolidated income statement during the financial year in which they are incurred.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Buildings, aircraft and engines 20 years (from the date of original manufacture)
- Motor vehicles 3 years
- Furniture, fixtures and equipment 3-5 years

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment (Continued)

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Properties under development

Properties under development are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed the asset is transferred to buildings.

The carrying values of properties under development are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective profit rate.

The carrying amount of the asset is reduced through the use of the provision of impairment and the amount of impairment loss is recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate.

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

Available for sale financial assets

For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a Group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from fair value reserve and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the income consolidated statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

In the case of Sukook investments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. If, in a subsequent year, the fair value of a Sukook increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized 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 recognized 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.

A financial liability is derecognized 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.

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 recognized in the consolidated financial statements at fair value, being the premium received, in other liabilities. The guarantee liability is subsequently carried at initial measurement less amortization. When a payment under the guarantee is likely to become payable, the present value of the expected payments less the unamortized premium, is charged to the consolidated income statement.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency swaps and profit rate swaps, forward foreign exchange contracts
The Group uses currency swaps and profit rate swaps, and forward foreign exchange contracts to mitigate exposure to foreign currency risk in forecasted transactions and firm commitments. The Group does not engage in speculative derivative transactions.

Currency swaps and profit rate swaps and forward foreign exchange contracts instruments (“the instruments”) are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value. The fair value of these instruments includes unrealised gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in accounts payable and accruals in the consolidated statement of financial position.

The resultant gains and losses from currency swaps and profit rate swaps and forward foreign exchange contracts are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument’s fair value in offsetting the exposure to changes in the hedged item’s fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For those currency swaps and profit rate swaps and forward foreign exchange contracts classified as cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in fair value reserve are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Fair values
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. Consequently differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms.

Investments
For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm’s length transactions, current fair value of another instrument that is substantially the same, an earnings multiple, or an industry specific earnings multiple or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair values (Continued)

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value, if any.

Currency swaps and profit rate swaps, forward foreign exchange contracts
The fair value of currency swaps and profit rate swaps and forward foreign exchange contracts is determined based on valuations obtained from counterparty/third parties.

Other financial assets and liabilities
For other financial assets and liabilities, fair value is determined based on expected future cash flows and management's estimate of the amount at which these assets could be exchanged for cash on an arm's length basis or a liability settled to the satisfaction of creditors.

Investment properties
For local investment properties, fair value is determined by the Bank's specialist resources which have relevant experience in the local property market. For overseas investment properties, fair value is determined based on external valuations by independent, registered real estate valuers.

IFRS 2 "Share-Based Payment"
IFRS 2 "Share-Based Payment" requires an expense to be recognized where the Group buys goods or services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions").

Share-based payment transactions
Entitled employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby entitled employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Equity-settled transactions
The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the fair value of the granted shares at each reporting date and the date of final settlement to the exercise price with any change in intrinsic value recognized in the consolidated income statement.

The cost of equity settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees exercise their rights. The cumulative expense recognized for equity-settled transactions at each reporting date until the exercise date reflects the extent to which the exercise period has expired and the number of awards that, in the opinion of the Board of Directors at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

Zakat
In accordance with its internal guidelines, the Bank calculates Zakat at 2.577% on the opening reserves of the Bank (excluding proposed distributions) which have remained for one complete fiscal year and is paid under the direction of the Bank's Al-Fatwa and Shareea'ah Supervisory Board. Such Zakat is charged to voluntary reserve.

In addition, effective from 10 December 2007, the Bank has also provided for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated income statement.

Foreign currency translation
The consolidated financial statements are presented in Kuwaiti Dinars, which is the Bank's functional and presentational currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the financial position date. All differences are included within net gain from dealing in foreign currencies in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

Group companies

As at the reporting date, the assets and liabilities of foreign subsidiaries are translated into the Bank's presentation currency at the rate of exchange ruling at the financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to foreign exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to the particular foreign operation is recognized in the consolidated income statement.

On equity accounting, the carrying value of the associates is translated into the Bank's presentation currency at the period end rates of exchange and the results of the associates are translated into Kuwaiti Dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognized in the consolidated income statement.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognized 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.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated financial position when there is a legally enforceable right to set off the recognized amounts and the Group intends to settle on a net basis so as to realize the assets and liabilities simultaneously.

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. 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.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

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 or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Judgments (Continued)

Classification of real estate property
Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or properties and equipment.

The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business.

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for the owner occupation.

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

Impairment losses on finance facilities
The Group reviews its problem finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined (see note 9). As a result, these investments are carried at cost less impairment.

Basis of Tranlsation
The United States dollar amounts in consolidated income statement, statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flow represent supplementary information and have been translated at a rate of KD 0.28690 per USD which represents the mid-market rate at 31 December 2009.

3 - INVESTMENT INCOME

	2009 KD 000's	2008 KD 000's
Gain on sale of trading properties	29,370	42,368
Rental income	19,000	13,661
Dividend income	18,260	19,910
(Loss) gain on part sale of associates	(72)	3,183
Gain on part sale of subsidiaries	34,893	13,283
Gain on sale of investments	14,623	72,284
Share of (loss) results of associates (Note 10)	(28,724)	42,991
Other investment income	24,263	2,217
	111,613	209,897

4 - IMPAIRMENT

	2009 KD 000's	2008 KD 000's
Provision for impairment of receivables:		
International Murabahas	33,955	6,181
Local Murabahas and Wakala	58,040	124,615
Istisna'a and other receivables	3,644	22,645
	95,639	153,441
Impairment of leased assets	6,882	8,886
Impairment of investments	53,130	48,416
Impairment of associates (Note 10)	14,014	-
(Reversal of) impairment of investment properties	(172)	(2,537)
Impairment of property and equipment	9,630	-
Impairment of other assets	24,762	2,734
	203,885	210,940

5 - BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK

Basic earnings per share is calculated by dividing the profit for the year attributable to the equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group.

Diluted earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year after adjusting for treasury shares held by the Group plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into shares.

	2009 KD 000's	2008 KD 000's
Profit for the year attributable to the equity holders of the Bank	118,741	156,960
Weighted average number of shares outstanding during the year (thousands)	2,283,639	2,304,510
Basic and diluted earnings per share	52.0 fils	68.1 fils

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 10 March 2009 (see note 17).

6 - CASH AND CASH EQUIVALENTS

	2009 KD 000's	2008 KD 000's
Cash	48,224	47,836
Balances with Central Banks	215,184	146,289
Balances with banks and financial institutions - current accounts	180,071	162,190
Balances with banks and financial institutions - exchange of deposits	1,464	11,747
Cash and balances with banks and financial institutions	444,943	368,062
Short-term international Murabaha – maturing within 3 months of contract date	584,688	932,731
Tawarruq balances with Central Bank of Kuwait (included within short- term international Murabaha)	217,062	80,249
Exchange of deposits – maturing after 3 months of contract date	-	(12,857)
Cash and cash equivalents	1,246,693	1,368,185

The Group exchanges deposits with high credit quality banks and financial institutions in local and foreign currencies with the legal right reserved to set off such deposits exchanged in the event that a counter party bank or financial institution becomes insolvent. The gross balances of deposits exchanged were as follows:

	2009 KD 000's	2008 KD 000's
Due from banks and financial institutions	161,396	132,330
Due to banks and financial institutions	(161,126)	(130,733)
	270	1,597

Included in the consolidated statement of financial position as net balances:

	2009 KD 000's	2008 KD 000's
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	1,464	11,747
In liabilities:		
Due to banks and financial institutions – exchange of deposits	(1,194)	(10,150)
	270	1,597

The fair values of cash and balances with banks and financial institutions do not differ from their respective book values.

7 - RECEIVABLES

Receivables principally comprise Murabaha and Istisna'a balances and are stated net of provision for impairment as follows:

	2009 KD 000's	2008 KD 000's
International Murabahas	1,221,442	725,312
Local Murabahas and Wakala	4,008,053	3,570,096
Istisna'a and other receivables	229,031	783,487
	5,458,526	5,078,895
Less: provision for impairment	(368,128)	(299,107)
	5,090,398	4,779,788

The distribution of receivables is as follows:

	2009 KD 000's	2008 KD 000's
Industry sector		
Trading and manufacturing	1,014,802	1,409,442
Banks and financial institutions	1,888,090	2,176,638
Construction and real estate	1,591,305	853,582
Other	964,329	639,233
	5,458,526	5,078,895
Less: provision for impairment	(368,128)	(299,107)
	5,090,398	4,779,788

	2009 *KD 000's*	2008 KD 000's
Geographic region		
Middle East	3,949,951	3,899,608
Western Europe	71,146	7,382
Other	1,437,429	1,171,905
	5,458,526	5,078,895
Less: provision for impairment	(368,128)	(299,107)
	5,090,398	4,779,788

7 - RECEIVABLES (Continued)

Provision for impairment of receivables from customers for finance facilities are as follows:

	Specific		*General*		*Total*	
	2009	2008	**2009**	2008	**2009**	2008
	KD 000's	KD 000's	**KD 000's**	KD 000's	**KD 000's**	KD 000's
Balance at beginning of year	**164,098**	77,971	**135,009**	73,384	**299,107**	151,355
Provided during the year	**59,122**	89,745	**36,517**	63,696	**95,639**	153,441
Amounts written off	**(19,915)**	(3,618)	**(6,703)**	(2,071)	**(26,618)**	(5,689)
Balance at end of year	**203,305**	164,098	**164,823**	135,009	**368,128**	299,107
International Murabahas	**38,259**	3,540	**21,920**	6,238	**60,179**	9,778
Local Murabahas and Wakala	**143,297**	152,214	**138,922**	109,098	**282,219**	261,312
Istisna'a and other receivables	**21,749**	8,344	**3,981**	19,673	**25,730**	28,017
	203,305	164,098	**164,823**	135,009	**368,128**	299,107

At 31 December 2009, as per CBK regulations, the Bank's non-performing finance facilities amounted to KD 642,072 thousand (2008: KD 642,168 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion	Post liberation	Total
	KD 000's	KD 000's	KD 000's
2009			
Finance facilities	**6,275**	**635,797**	**642,072**
Provision for impairment	**6,275**	**212,644**	**218,919**

	Pre-invasion	Post liberation	Total
	KD 000's	KD 000's	KD 000's
2008			
Finance facilities	6,309	635,859	642,168
Provision for impairment	6,309	158,428	164,737

The provision released for the year on non-cash facilities is KD 16 thousand (2008: KD 157 thousand). The available provision on non-cash facilities of KD 6,543 thousand (2008: KD 6,527 thousand) is included under other liabilities.

Provisions include certain amounts purchased by the Central Bank of Kuwait. Such provisions must be ceded to the Central Bank of Kuwait when they are no longer required.

Whenever necessary, Murabaha and Wakala receivables are secured by acceptable forms of collateral to mitigate the related credit risks. Real estate Murabaha receivables are secured by mortgage on the underlying property.

The fair values of receivables do not differ from their respective book values.

8 - LEASED ASSETS

The net investment in leased assets comprises the following:

		2009 KD 000's	2008 KD 000's
Gross investment		1,350,772	1,248,439
Less:	unearned revenue	(28,710)	(38,940)
	provision for impairment	(33,996)	(27,674)
		1,288,066	1,181,825

Impairment on leased assets is as follows:

	Specific		*General*		*Total*	
	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's
Balance at beginning of year	9,625	4,784	18,049	14,004	27,674	18,788
Provided during the year	6,162	4,841	720	4,045	6,882	8,886
Write off	(554)	-	(6)	-	(560)	-
Balance at end of year	15,233	9,625	18,763	18,049	33,996	27,674

The future minimum lease payments receivable in the aggregate are as follows:

	2009 KD 000's	2008 KD 000's
Within one year	771,155	790,674
One to five years	324,389	369,436
After five years	255,228	88,329
	1,350,772	1,248,439

The unguaranteed residual value of the leased assets at 31 December 2009 is estimated at KD 57,588 thousand (2008: KD 63,099 thousand).

9 - INVESTMENTS

	2009 KD 000's	2008 KD 000's
Investments comprise:		
Quoted equity investments	79,727	82,966
Unquoted equity investments	301,133	328,091
Managed portfolios (mainly comprising quoted equity investments)	230,402	300,184
Mutual funds (unquoted)	189,512	114,092
Sukook	241,252	213,269
	1,042,026	1,038,602
Investments carried at fair value	739,088	709,521
Investments carried at cost less impairment	302,938	329,081
	1,042,026	1,038,602

Included in managed portfolios is an amount of KD 28,372 thousand (2008: KD 27,952 thousand) which represents the Group's investment in 25,723 thousand (2008: 17,469 thousand) of the Bank's shares on behalf of depositors, equivalent to 1.12% of the total issued share capital at 31 December 2009 (2008: 0.85%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

Unquoted equity shares

The Group holds non-controlling interests (between 5 to 9%) in entities where it has entered into research collaboration. The fair value of the unquoted ordinary shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of available for sale investments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

9 - INVESTMENTS (Continued)

31 December 2009	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Quoted equity investments	79,727	-	-	79,727
Unquoted equity investments	-	-	11,949	11,949
Managed portfolios (mainly comprising quoted equity investments)	216,658	-	-	216,658
Mutual funds	-	-	189,512	189,512
Sukook	241,242	-	-	241,242
	537,627	**-**	**201,461**	**739,088**

Available for sale investment

Available for sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

10 - INVESTMENTS IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		Country of registration	Principal activities	Financial statements reporting date
	2009	2008			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	27	27	Kuwait	Islamic Takaful insurance	30 September 2009
Gulf Investment House K.S.C. (Closed)	20	20	Kuwait	Islamic investments	30 September 2009
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2009
National Bank of Sharjah PJSC	20	20	United Arab Emirates	Islamic banking services	30 September 2009
First Investment Company K.S.C. (Closed)	9	9	Kuwait	Islamic investments	30 September 2009
Indirect investments in associates held through consolidated subsidiaries:					
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	16	Kuwait	Leasing and Islamic investment	30 September 2009
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	30	30	Kuwait	Real estate projects management	30 September 2009
Sokouk Real Estate Development Company K.S.C. (Closed)	49	49	Kuwait	Real estate development	30 September 2009

10 - INVESTMENTS IN ASSOCIATES (Continued)

	2009 KD 000's	2008 KD 000's
Carrying amount of investment in associates:		
At 1 January	449,496	341,279
Additions	18,637	138,263
Disposals	(2,654)	(20,885)
Reclassification to investments available for sale on part sale of associates	-	(16,795)
Reclassification to investment in subsidiary on acquisition of controlling stake	(22,455)	(18,237)
Reclassification to investments in associates from investments available for sale	9,100	-
Share of (loss) results of associates (Note 3)	(28,724)	42,991
Dividends received	(2,736)	(6,879)
Impairment in value (Note 4)	(14,014)	-
Share of changes in associates' fair values reserve (Note 15)	(3,785)	(878)
Foreign exchange translation adjustment (Note 16)	7,973	(9,363)
At 31 December	410,838	449,496

The Group's investments in First Investment Company and A'ayan Leasing and Investment Company have been classified as investments in associates as the Group has the ability to exercise significant influence over the operation of these companies through representation on the Board of Directors of these companies.

	2009 KD 000's	2008 KD 000's
Share of associates' assets and liabilities:		
Assets	832,887	840,416
Liabilities	(481,608)	(442,734)
Net assets	351,279	397,682

	2009 KD 000's	2008 KD 000's
Share of associates' revenue and results:		
Revenue	97,188	117,734
Results	(28,724)	42,991
Capital Commitments	26,705	28,196

Investments in associates with a carrying amount of KD 215,405 thousand (2008: KD 199,087 thousand) have a market value of KD 83,507 thousand at 31 December 2009 (2008: KD 154,037 thousand) based on published quotes. The remaining associates with a carrying value of KD 195,433 thousand (2008: KD 250,408 thousand) are unquoted companies and reliable fair value information is not readily available. The carrying amount of investments in associates includes goodwill of KD 59,559 thousand (2008: KD 51,814 thousand).

11 - INVESTMENT PROPERTIES

	2009 KD 000's	2008 KD 000's
At 1 January	279,574	247,300
Arising on consolidation	17,202	-
Purchases	98,656	44,261
Transfer from property and equipment	155,371	-
Disposals	(42,043)	(12,900)
Depreciation charge for the year	(2,468)	(1,624)
Impairment losses released	172	2,537
At 31 December	506,464	279,574

	2009 KD 000's	2008 KD 000's
Developed properties	320,086	281,560
Properties under construction	188,192	-
	508,278	281,560
Less: impairment in value	(1,814)	(1,986)
	506,464	279,574

Investment properties with carrying value of KD 38,464 thousand (2008: KD 37,932 thousand) and their rental income are mortgaged and assigned against Murabaha payable amounting to KD 37,287 thousand (2008: KD 34,939 thousand).

The fair value of developed investment properties at the financial position date is KD 328,440 thousand (2008: KD 295,586 thousand).

12 PROPERTY AND EQUIPMENT

	Land KD 000's	Buildings KD 000's	Aircraft and engines KD 000's	Furniture, fixtures and equipment KD 000's	Motor vehicles KD 000's	Properties under development KD 000's	Total KD 000's
Cost							
At 1 January 2009	12,949	76,115	285,666	79,741	27,458	236,550	718,479
Arising on consolidation	9,926	5,844	13,187	15,057	38,336	10,125	92,475
Additions	1,133	2,257	189,218	41,795	12,865	24,452	271,720
Disposals	(1,218)	(9,311)	-	(4,365)	(21,467)	(24,419)	(60,780)
Transfer to investment properties and trading properties	-	-	-	-	-	(216,716)	(216,716)
At 31 December 2009	**22,790**	**74,905**	**488,071**	**132,228**	**57,192**	**29,992**	**805,178**
Depreciation							
At 1 January 2009	-	35,339	36,732	48,123	6,946	-	127,140
Arising on consolidation	-	1,195	4,087	14,699	20,138	-	40,119
Depreciation charge for the year	-	2,267	15,599	14,674	5,023	-	37,563
Relating to disposals	-	(1,873)	-	(718)	(8,289)	-	(10,880)
Impairment loss charged for the year	-	-	9,630	-	-	-	9,630
At 31 December 2009	**-**	**36,928**	**66,048**	**76,778**	**23,818**	**-**	**203,572**
Net carrying amount							
At 31 December 2009	**22,790**	**37,977**	**422,023**	**55,450**	**33,374**	**29,992**	**601,606**
At 31 December 2008	12,949	40,776	248,934	31,618	20,512	236,550	591,339

Included in property and equipment are the head office building and all branches of the Bank constructed on land leased from the Government of Kuwait. The ownership of the buildings as well as the net rental income from these buildings is attributable only to the equity holders of the Bank.

Buildings include the investment in Al-Muthana Complex in Kuwait which is constructed on land leased from the Government of Kuwait. The ownership of the building, as well as any results from the activities relating to the complex, is attributed only to the equity holders of the Bank.

One of the subsidiaries holds aircraft fleet with carrying value of KD 258,419 thousand (2008: KD 145,865 thousand) acquired under finance leases. The aircraft are secured against the finance leases with the legal title of the aircraft being retained by the lender (Note 13). The residual value of the aircraft is estimated at approximately 30% (in aggregate) of the purchase cost of the aircraft fleet.

The gross carrying value of fully depreciated property and equipment still in use at the financial position date is KD 16,196 thousand (2008: KD 14,345 thousand).

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 166,882 thousand (2008: KD 117,714 thousand) and is receivable as follows:

	2009 KD 000's	2008 KD 000's
Income receivable within one year	36,881	27,686
Income receivable within one year to five years	99,854	69,131
Income receivable after five years	30,147	20,897
	166,882	117,714

13 - DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2009 KD 000's	2008 KD 000's
Current accounts	1,938	18,534
Murabaha payable	1,261,332	1,455,198
Obligations under finance leases (Note 12)	197,655	121,720
	1,460,925	1,595,452

The fair values of balances due to Banks and financial institutions do not differ from their respective book values.

Property and equipment include 23 aircrafts acquired by a subsidiary under finance leases denominated in US Dollars: 9 aircrafts with finance lease obligations maturing within 5 years and 14 aircrafts with lease obligations maturing after 5 years. The obligations under finance leases are secured by the aircraft (Note 12). The installments payable within one to five years are KD 134,843 thousand and installments payable after five years are KD 62,812 thousand.

14 - DEPOSITORS' ACCOUNTS

a) The depositors' accounts of the Bank comprise the following:

i) Non-investment deposits in the form of current accounts. These deposits are not entitled to any profits nor do they bear any risk of loss as the Bank guarantees to pay the related balances on demand. Accordingly, these deposits are considered Qard Hasan from depositors to the Bank under Islamic Shareea'ah.

ii) Investment deposits comprise Mustamera and Sedra deposits for unlimited periods and Tawfeer savings accounts. Unlimited investment deposits are initially valid for one year and are automatically renewable for the same period unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

In all cases, the investment deposits receive a proportion of the profit as the board of directors of the Bank determines, or bear a share of loss based on the results of the financial year.

The Bank generally invests approximately 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Sedra") and 60% of investment savings accounts ("Tawfeer"). The Bank guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the Bank, under Islamic Shareea'ah. Investing such Qard Hasan is made at the discretion of the Board of Directors of the Bank, the results of which are attributable to the equity holders of the Bank.

b) On the basis of the results for the year, the Board of Directors of the Bank has determined the depositors' share of profit at the following rates:

	2009 % per annum	2008 % per annum
Investment deposits - ("Mustamera")	2.780	4.300
Investment deposits - ("Sedra")	2.162	3.344
Investment savings accounts ("Tawfeer")	1.853	2.867

c) The fair values of depositors' accounts do not differ from their carrying book values.

15 - FAIR VALUE RESERVE

Changes in the fair value of available for sale investments are reported in the fair value reserve. Management of the Bank is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated financial position enables a fairer presentation than its inclusion within equity attributable to the equity holders of the Bank.

The movement on the fair value reserve is analyzed as follows:

	2009 KD 000's	2008 KD 000's
Balance at 1 January	11,394	86,843
Change in fair value of available for sale investments	(88,644)	(48,318)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	(2,444)	-
Loss (gain) realised on available for sale investments during the year	672	(59,253)
Impairment losses transferred to the consolidated income statement	49,210	33,000
Share of other comprehensive loss of associates (Note 10)	(3,785)	(878)
Balance at 31 December	(33,597)	11,394

Unrealized gains (losses) on revaluation of available for sale investments recognized directly in fair value reserve include KD (1,977) thousand (2008: KD 1,803 thousand) relating to unquoted equity investments resulting from the use of valuation techniques.

16 - FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates. Management of the Bank is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated financial position enables a fairer presentation than its inclusion within equity attributable to the equity holders of the Bank.

17 - SHARE CAPITAL

	2009 KD 000's	2008 KD 000's
Authorised, issued and fully paid :		
2,305,418,958 (2008 : 2,058,409,784) shares of KD 0.100 each	230,542	205,841

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

	2009	2008
Number of shares in issue 1 January	2,058,409,784	1,715,341,457
Bonus issue 12% (2008: 20%)	247,009,174	343,068,327
Number of shares in issue 31 December	2,305,418,958	2,058,409,784

17 - SHARE CAPITAL (Continued)

Treasury shares and treasury share reserve

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

	2009	2008
Number of treasury shares	31,127,500	5,315,000
Treasury shares as a percentage of total shares in issue	1.35%	0.26%
Cost of treasury shares (KD)	36,661,861	7,651,000
Market value of treasury shares (KD)	34,240,250	7,228,400

Movement in treasury shares was as follows:

	No. of shares	
	2009	2008
Balance as at 1 January	5,315,000	-
Purchases	65,272,500	5,315,000
Bonus issue	1,502,725	-
Sales	(40,962,725)	-
Balance as at 31 December	31,127,500	5,315,000

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

18 - RESERVES

In the ordinary and extraordinary general assembly meeting of the equity holders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers to statutory reserve in excess of 10%. The extraordinary general assembly of the Bank held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the profit for the year attributable to the equity holders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank. As a result, an amount of KD 12,393 thousand equivalent to approximately 10% (2008: KD 16,255 thousand equivalent to approximately 10%), of the profit for the year attributable to the equity holders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and usable at the discretion of the ordinary general assembly in ways that may be deemed beneficial to the Bank. Distribution of the balance of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

25% (2008: 21%) of the profit for the year attributable to the equity holders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve.

The share premium balance is not available for distribution.

19 - PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 25% for the year ended 31 December 2009 (2008: 40%) and issuance of bonus shares of 8% (2008: 12%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equity holders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 160 thousand (2008: KD 160 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equity holders of the Bank.

20 - CONSOLIDATED SUBSIDIARIES

Name	Country of registration	Interest in equity %		Principal activities	Financial statements reporting date
		2009	2008		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2009
KFH Private Equity Ltd.	Cayman	100	100	Islamic investment	30 September 2009
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2009
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate development and leasing	31 October 2009
Development Enterprises Holding Company K.S.C.	Kuwait	100	100	Infrastructure and Industrial investments	30 September 2009
Baitak Real Estate Investment Company	Kingdom of Saudi Arabia	100	100	Real Estate development and investment	30 September 2009
Liquidity Management House K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2009
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	96	Computer maintenance Consultancy, and Software services	30 September 2009
Kuwait Finance House B.S.C.	Bahrain	93	97	Islamic banking services	30 November 2009
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	30 September 2009
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2009
ALAFCO - Aviation Lease and Finance Company K.S.C.(Closed)	Kuwait	52	52	Aircraft leasing and financing services	30 September 2009
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	51	Real estate, investment trading and real estate Management	31 October 2009

21 - CONTINGENCIES AND COMMITMENTS

At the consolidated financial position date, there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	2009 KD 000's	2008 KD 000's
Acceptances and letters of credit	145,680	192,152
Letter of Guarantees	955,777	1,036,772
	1,101,457	1,228,924
Capital commitments	1,327,082	1,463,323

22 - CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of business the Group enters into currency swaps and profit rate swaps and forward foreign exchange contracts to mitigate foreign currency and profit rate risk. Currency swaps are based on Wa'ad (promise) structure between two parties to buy a specified Shareea'ah compliant commodity at an agreed price on the relevant date in future. It is a conditional promise to purchase a commodity through unilateral purchase undertaking. Currency swap structure comprises profit rate swap and currency swap. For profit rate swaps, counterparties generally exchange fixed and floating rate profit payments based on a notional value in a single currency. For currency swaps, fixed or floating payments as well as notional amounts are exchanged in different currencies.

The currency swaps and forward foreign exchange contracts are being used to hedge the foreign currency risk of the firm commitments.

At 31 December 2009, the Group held currency swaps and profit rate swaps and forward foreign exchange contracts designated as hedges of expected future collections from hedged items in foreign currency and variability in profit rate.

The table below shows the positive and negative fair values of currency swap instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instrument's underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

22 - CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS (Continued)

31 December 2009				Notional amounts by term to maturity		
	Positive fair value	Negative fair value	Contract/ Notional amount Total	Within 3 months	3 to 12 months	More than 12 months
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Cash flow hedges						
Currency forward foreign exchange contracts	-	-	16,076	13,790	-	2,286
Profit rate swaps	-	2,444	290,173	-	-	290,173
Currency swaps	-	-	27,146	10,002	15,716	1,428
	-	2,444	333,395	23,792	15,716	293,887
Not designated as hedges						
Forward foreign exchange contracts	3,087	1,661	274,217	224,948	48,332	937
Profit rate swaps	2,406	5,608	159,901	-	-	159,901
	5,493	7,269	434,118	224,948	48,332	160,838
	5,493	**9,713**	**767,513**	**248,740**	**64,048**	**454,725**

In respect of currency forward foreign exchange contracts and currency swaps, the notional amount represents the gross cash flows. However, the amounts may be settled net. The following table shows the net cash flows:

	Contract/ Notional amount Total	Within 3 months	3 to 12 months	More than 12 months
	KD 000's	KD 000's	KD 000's	KD 000's
Inflows	317,439	248,740	64,048	4,651
Outflows	(228,448)	(204,267)	(19,897)	(4,284)
Net cash flows	88,991	44,473	44,151	367

In respect of profit rate swaps, notional amounts are not exchanged.

23 - RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) were depositors and financing facilities customers of the Bank, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit 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. These transactions are approved by the ordinary general assembly of the equity holders of the Bank.

The balances included in the consolidated financial statements are as follows:

	Major shareholders	Associates	Board Members and Executive Officers	Other related parties	Total 2009	Total 2008
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Related parties						
Receivables	13,963	170,190	2,145	61,290	247,588	143,486
Due to banks and financial Institutions	284,047	6,978	-	30,890	321,915	148,231
Depositors' accounts	30,941	18,884	2,825	44,037	96,687	61,778
Commitments and contingencies	847	4,568	-	16,044	21,459	9,147

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

	The number of Board Members or Executive Officers		The number of related parties			
	2009	2008	2009	2008	2009	2008
					KD 000's	KD 000's
Board Members						
Finance facilities	6	11	3	16	5,586	73,694
Credit cards	8	5	1	-	53	33
Deposits	24	24	52	104	3,958	82,627
Collateral against financing facilities	3	1	-	4	2,663	176
Executive officers						
Finance facilities	16	20	4	4	2,340	4,906
Credit cards	26	11	6	4	71	29
Deposits	27	26	76	84	5,616	4,925
Collateral against finance facilities	8	8	1	1	3,713	4,852

Compensation of key management personnel is as follows:

	2009 KD 000's	2008 KD 000's
Short-term employee benefits	10,534	8,638
Termination benefits	752	464
	11,286	9,102

24 - SEGMENTAL ANALYSIS

Primary segment information
For management purposes, the Group is organized into three major business segments. The principal activities and services under these segments are as follows:

Treasury: Liquidity management, international Murabaha investments, exchange of deposits with banks and financial institutions and international banking relationships.

Investment: Managing direct equity and real estate investments, investments in subsidiaries and associates, and international leasing.

Retail and corporate banking: Providing a range of banking services and investment products to corporate and individual customers, providing commodity and real estate Murabaha finance, local leasing, Wakala and Istisna'a facilities.

31 December 2009	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	444,943	-	-	-	444,943
Short-term international Murabaha	1,257,573	-	-	-	1,257,573
Receivables	1,100,087	891,759	3,005,381	93,171	5,090,398
Trading properties	-	126,386	-	-	126,386
Leased assets	-	110,287	1,177,779	-	1,288,066
Investments	-	1,042,026	-	-	1,042,026
Investments in associates	-	410,838	-	-	410,838
Investment properties	-	506,464	-	-	506,464
Other assets	6,132	147,320	61,878	307,064	522,394
Property and equipment	544	18,997	35,640	546,425	601,606
	2,809,279	3,254,077	4,280,678	946,660	11,290,694
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,460,925	-	-	-	1,460,925
Depositors' accounts	-	-	7,261,827	-	7,261,827
Other liabilities	9,038	18,489	138,779	397,145	563,451
Deferred revenue	226	2,151	460,270	1,955	464,602
Fair value reserve	-	(33,597)	-	-	(33,597)
Foreign exchange translation reserve	-	7,531	-	-	7,531
	1,470,189	(5,426)	7,860,876	399,100	9,724,739
Income	27,370	70,450	630,093	38,790	766,703
Impairment	-	(70,282)	(101,003)	(32,600)	(203,885)
Profit before distribution to depositors	22,685	(3,089)	225,849	24,149	269,594

24 - SEGMENTAL ANALYSIS (Continued)

31 December 2008	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international Murabaha	1,306,878	5,275	-	-	1,312,153
Receivables	725,311	710,186	3,284,736	59,555	4,779,788
Trading properties	-	57,590	-	-	57,590
Leased assets	-	117,888	1,063,937	-	1,181,825
Investments	-	1,038,602	-	-	1,038,602
Investments in associates	-	449,496	-	-	449,496
Investment properties	-	279,574	-	-	279,574
Other assets	15,885	309,624	63,001	97,203	485,713
Property and equipment	595	69,466	93,460	427,818	591,339
	2,416,731	3,037,701	4,505,134	584,576	10,544,142
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,595,452	-	-	-	1,595,452
Depositors' accounts	-	-	6,611,556	-	6,611,556
Other liabilities	22,097	34,387	166,073	171,476	394,033
Deferred revenue	355	-	343,802	269	344,426
Fair value reserve	-	11,394	-	-	11,394
Foreign exchange translation reserve	-	(7,548)	-	-	(7,548)
	1,617,904	38,233	7,121,431	171,745	8,949,313
Income	19,663	220,956	623,288	20,946	884,853
Impairment	(6,181)	(45,879)	(156,146)	(2,734)	(210,940)
Profit before distribution to depositors	7,615	78,779	300,593	10,058	397,045

24 - SEGMENTAL ANALYSIS (Continued)

Secondary segment information

The Group operates in different geographical areas. A geographical analysis is as follows:

	Assets		Liabilities		Contingencies and commitments under letters of credit and guarantees	
	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's
Geographical areas:						
The Middle East	8,124,258	7,772,279	7,080,218	7,142,849	730,149	270,565
North America	231,573	186,014	30,938	85,962	595,021	2,784
Western Europe	368,799	352,528	229,752	44,611	466,354	13,921
Other	2,566,064	2,233,321	1,945,295	1,327,619	954,122	941,654
	11,290,694	10,544,142	9,286,203	8,601,041	2,745,646	1,228,924

	Local		International		Total	
	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's	2009 KD 000's	2008 KD 000's
Income	440,851	553,675	325,852	331,178	766,703	884,853
Profit before distribution to depositors	175,276	235,149	94,318	161,896	269,594	397,045

25 - CONCENTRATION OF ASSETS AND LIABILITIES

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

25 - CONCENTRATION OF ASSETS AND LIABILITIES (Continued)

(a) The distribution of assets by industry sector was as follows:

	2009 KD 000's	2008 KD 000's
Trading and manufacturing	2,363,875	2,970,684
Banks and financial institutions	3,292,671	3,248,546
Construction and real estate	3,599,269	2,424,951
Other	2,034,879	1,899,961
	11,290,694	10,544,142

See Note 24 for distribution of assets by geographical areas.

(b) The distribution of liabilities was as follows:

	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2008 KD 000's
Geographic region						
The Middle East	6,954,192	126,026	7,080,218	6,864,896	277,953	7,142,849
North America	95	30,843	30,938	5,673	80,289	85,962
Western Europe	26,455	203,297	229,752	17,013	27,598	44,611
Other	1,883,285	62,010	1,945,295	1,261,327	66,292	1,327,619
	8,864,027	422,176	9,286,203	8,148,909	452,132	8,601,041

	2009 KD 000's	2008 KD 000's
Industry sector		
Trading and manufacturing	1,380,499	1,278,497
Banks and financial institutions	4,475,871	4,145,157
Construction and real estate	323,420	313,182
Other	3,106,413	2,864,205
	9,286,203	8,601,041

26 - FOREIGN CURRENCY EXPOSURE

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	2009 KD 000's Equivalent Long (short)	2008 KD 000's Equivalent Long (short)
U.S. Dollars	209,298	80,365
Sterling Pounds	12,919	37,042
Euros	5,534	2,523
Gulf Cooperation Council currencies	375,969	37,841
Others	50,304	54,109

27 - RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. It is managed through a risk management committee, comprising members of senior management drawn from all key areas of the Group, who guide and assist with overall management of the Group's risks. Each individual within the Group is accountable for the risk exposures relating to their responsibilities. The Group is exposed to liquidity risk, credit risk, concentration risk, profit return risk, equity price risk and currency risk.

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the board of directors.

a) Risk management structure

Board of Directors
The Board of Directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles.

The Board of Directors of the Bank receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

Risk management committee
The Bank's risk management committee has the overall responsibility for development of a risk strategy and implementing principles, frameworks, policies and limits. It is responsible for fundamental risk issues and manages and monitors relevant risk exposures.

Risk management unit
The Bank's risk management unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

Treasury
Treasury is responsible for managing the Bank's assets and liabilities, and the overall financial position. It is also responsible for funding and liquidity management.

27 - RISK MANAGEMENT (Continued)

b) Risk management and reporting systems

The risk management committee is responsible for managing and monitoring risk exposures. The risk management unit measures risk through the use of risk models and provides reports to the risk management committee. The models use probabilities based on historical experiences adjusted to reflect the economic environment.

Monitoring and controlling risks are managed through limits set by the Board of Directors. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Bank's Board of Directors is willing to accept.

Risk mitigation

As part of its overall risk management, the Group uses certain financial instruments including currency swaps and profit rate swaps and forward foreign exchange contracts to manage exposures resulting from changes in yields, foreign currencies, equity risks and credit risks. The Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

In addition, each of the banking subsidiaries of the Bank, has similar risk management structures, policies and procedures as noted for the Bank above which are overseen by the Bank's Board of Directors.

28 - CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a decentralized credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to finance facilities and these are mitigated by the same control processes and policies.

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross (net of provisions), before the effect of mitigation through the use of master netting and collateral agreements.

28 - CREDIT RISK (Continued)

	Note	Gross maximum exposure 2009 KD 000's	Gross maximum exposure 2008 KD 000's
Balances with banks and financial institutions		**396,719**	320,226
Short-term international Murabaha		**1,257,573**	1,312,153
Receivables	7	**5,090,398**	4,779,788
Leased assets	8	**1,288,066**	1,181,825
Investments – Sukook	9	**241,252**	213,269
Other assets		**276,015**	381,626
Total		**8,550,023**	8,188,887
Contingent liabilities		**1,101,457**	1,228,924
Commitments		**1,327,082**	1,463,323
Total		**2,428,539**	2,692,247
Total credit risk exposure		**10,978,562**	10,881,134

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2009 was KD 133,279 thousands (2008: KD 145,000 thousands) before taking account of collateral or other credit enhancements and KD 133,279 thousands (2008: KD 120,212 thousands) net of such protection.

28 - CREDIT RISK (Continued)

The Group's on-financial position financial assets, before taking into account any collateral held can be analyzed by the following geographical regions:

	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2008 KD 000's
The Middle East	6,058,266	196,890	6,255,156	5,677,580	233,129	5,910,709
North America	25,272	13,343	38,615	94,046	78,901	172,947
Western Europe	185,062	3,193	188,255	141,615	34,990	176,605
Other	2,021,112	46,885	2,067,997	1,905,821	22,805	1,928,626
	8,289,712	260,311	8,550,023	7,819,062	369,825	8,188,887

An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2008 KD 000's
Trading and Manufacturing	1,000,950	10,461	1,011,411	1,828,638	64,080	1,892,718
Banks and financial Institutions	2,522,436	64,354	2,586,790	2,907,408	91,680	2,999,088
Construction and Real Estate	2,567,211	43,387	2,610,598	1,623,404	151,778	1,775,182
Other	2,199,115	142,109	2,341,224	1,459,612	62,287	1,521,899
	8,289,712	260,311	8,550,023	7,819,062	369,825	8,188,887

28 - CREDIT RISK (Continued)

Credit quality per class of financial assets

The table below shows the credit quality by class of asset for financial position lines:

	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
	2009	2009	2009	2009
	KD 000's	KD 000's	KD 000's	KD 000's
Receivables:				
International Murabahas	114,548	930,667	116,048	1,161,263
Local Murabahas and Wakala	265,022	2,797,910	662,902	3,725,834
Istisna'a and other receivables	520	101,972	100,809	203,301
	380,090	3,830,549	879,759	5,090,398
Leased assets	10,941	1,126,885	150,240	1,288,066
Investments – Sukook	39,654	201,598	-	241,252
	430,685	5,159,032	1,029,999	6,619,716

	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
	2008	2008	2008	2008
	KD 000's	KD 000's	KD 000's	KD 000's
Receivables:				
International Murabahas	688,821	26,713	-	715,534
Local Murabahas and Wakala	362,758	2,300,083	645,943	3,308,784
Istisna'a and other receivables	27,971	712,688	14,811	755,470
	1,079,550	3,039,484	660,754	4,779,788
Leased assets	806,022	291,100	84,703	1,181,825
Investments - Sukook	123,884	89,385	-	213,269
	2,009,456	3,419,969	745,457	6,174,882

28 - CREDIT RISK (Continued)

Aging analysis of past due but not impaired finance facilities by class of financial assets:

	Less than 30 days 2009 KD 000's	31 to 60 days 2009 KD 000's	61 to 90 days 2009 KD 000's	Total 2009 KD 000's
Local Murabahas	152,915	123,713	57,151	333,779
Istisna'a and other receivables	34,177	33,777	8,900	76,854
Leased assets	62,549	56,520	22,453	141,522
	249,641	214,010	88,504	552,155

	Less than 30 days 2008 KD 000's	31 to 60 days 2008 KD 000's	61 to 90 days 2008 KD 000's	Total 2008 KD 000's
Local Murabahas	226,346	67,951	19,399	313,696
Istisna'a and other receivables	14,320	2,206	946	17,472
Leased assets	807	34,262	16,068	51,137
	241,473	104,419	36,413	382,305

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines established by the Bank's risk management and credit committee are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral accepted include real estate, securities, cash and bank guarantees. The Group also obtains guarantees from parent companies for finance facilities extended to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The fair value of collateral that the Group holds relating to finance facilities individually determined to be past due or impaired at 31 December 2009 amounts to KD 1,919,845 thousand (2008: KD 1,877,836 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2009 was KD 1,566,041 thousand (2008: KD 1,620,170 thousand). The collateral consists of cash, securities, letters of guarantee and real estate assets.

29 - LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash and short term Murabaha. The ratio during the year was as follows:

	2009 %	2008 %
31 December	22	24
Average during the period	21	24
Highest	23	27
Lowest	20	20

The table below summarizes the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangement with the exception of investments and investment properties which are based on planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2009 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	439,547	5,396	-	-	444,943
Short-term international Murabaha	1,257,573	-	-	-	1,257,573
Receivables	1,219,870	1,055,639	946,266	1,868,623	5,090,398
Trading properties	28,535	38,645	4,215	54,991	126,386
Leased assets	269,035	236,236	272,408	510,387	1,288,066
Investments	66,656	39,098	54,719	881,553	1,042,026
Investments in associates	-	-	-	410,838	410,838
Investment properties	-	-	-	506,464	506,464
Other assets	94,364	72,013	122,284	233,733	522,394
Property and equipment	-	-	-	601,606	601,606
	3,375,580	1,447,027	1,399,892	5,068,195	11,290,694
Liabilities					
Due to banks and financial Institutions	869,199	356,372	112,212	123,142	1,460,925
Depositors' accounts	3,788,197	242,491	216,369	3,014,770	7,261,827
Other liabilities	72,589	35,887	179,266	275,709	563,451
	4,729,985	634,750	507,847	3,413,621	9,286,203

29 - LIQUIDITY RISK (Continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2008 is as follows:

	Within 3 months KD 000's	3 to 6 months KD 000's	6 to 12 months KD 000's	After one year KD 000's	Total KD 000's
Assets					
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international Murabaha	1,312,153	-	-	-	1,312,153
Receivables	1,109,623	1,003,259	810,061	1,856,845	4,779,788
Trading properties	810	53,598	-	3,182	57,590
Leased assets	242,284	186,487	220,273	532,781	1,181,825
Investments	11,925	-	-	1,026,677	1,038,602
Investment in associates	-	-	-	449,496	449,496
Investment properties	-	-	-	279,574	279,574
Other assets	134,015	199,296	10,218	142,184	485,713
Property and equipment	-	-	47,928	543,411	591,339
	3,178,872	1,442,640	1,088,480	4,834,150	10,544,142
Liabilities					
Due to banks and financial institutions	1,036,995	100,134	74,726	383,597	1,595,452
Depositors' accounts	3,002,372	153,188	35,416	3,420,580	6,611,556
Other liabilities	64,200	77,979	98,410	153,444	394,033
	4,103,567	331,301	208,552	3,957,621	8,601,041

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

	On demand KD 000's	Less than 3 months KD 000's	3 to 12 months KD 000's	1 to 5 years KD 000's	Over 5 years KD 000's	Total KD 000's
2009						
Contingent liabilities	728,648	34,568	87,163	186,398	64,680	**1,101,457**
Commitments	198,535	110,758	99,118	125,744	792,927	**1,327,082**
Total	**927,183**	**145,326**	**186,281**	**312,142**	**857,607**	**2,428,539**
2008						
Contingent liabilities	838,959	49,710	122,055	137,954	80,246	1,228,924
Commitments	198,632	40,608	199,233	284,025	740,825	1,463,323
Total	1,037,591	90,318	321,288	421,979	821,071	2,692,247

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

30 - MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

The Group is not exposed to any risk in terms of the reprising of its liabilities since the Group does not provide contractual rates of return to its depositors in accordance with Islamic Shareea'ah.

Non-trading market risk

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to interest rate risk as the Bank does not charge interest. Changes in interest rates may, however, affect the fair value of available for sale investments.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed on the basis of limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, where necessary, matches currency exposures inherent in certain assets with liabilities in the same or a correlated currency. The Group also uses currency swap and forward foreign exchange contracts to mitigate foreign currency risk.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of available for sale investments).

Currency	Change in currency rate in % 2009	Effect on profit 2009 KD 000's	Effect on fair value reserve 2009 KD 000's	Change in currency rate in % 2008	Effect on profit 2008 KD 000's	Effect on fair value reserve 2008 KD 000's
USD	0.2	755	561	-5	(4,018)	1,818
GBP	1	141	147	-10	(3,704)	(172)

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on fair value reserve (as a result of a change in the fair value of available for sale investments at 31 December 2009) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in equity price 2009 %	Effect on fair value reserve 2009 KD 000's	Change in equity price 2008 %	Effect on fair value reserve 2008 KD 000's
Kuwait Stock Exchange	-9	(29,586)	-15	(27,589)
Other GCC indices	15	21,222	-20	(1,281)

30 - MARKET RISK (Continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has a set of policies and procedures, which is approved by its Board of Directors and applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Bank. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall Bank-wide risk management.

The operational risk function of the Bank is in line with the CBK instructions concerning the general guidelines for internal controls and the sound practices for managing and supervising operational risks in Banks.

31 - CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regularity capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may review the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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:

Capital adequacy	2009 KD 000's
Risk Weighted Assets	9,103,591
Capital required	1,092,431
Capital available	
Tier 1 capital	1,372,935
Tier 2 capital	11,432
Total capital	1,384,367
Tier 1 capital adequacy ratio	15.08%
Total capital adequacy ratio	15.21%

The disclosures relating to the capital adequacy regulations issued by the Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/RBA/44/2009 dated 15 June 2009 are included under the 'Risk Management' section of the annual report.

32 - 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.

33 - FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group uses primary financial instruments such as cash and balances with or due to Banks and other financial institutions, investments, receivables and payables. The Group also uses currency swaps and profit rate swaps and forward foreign exchange contracts for hedging purposes. The Group does not engage in speculative derivative transactions. Information about fair values of financial assets and liabilities are disclosed in the respective notes to the consolidated financial statements.

34 - FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2009 amounted to KD 866,792 thousand (2008: KD 1,137,988 thousand).
Fees and commission income include fees of KD 5,605 thousand (2008: KD 4,343 thousand) arising from trust and fiduciary activities.