Kuwait Finance House K.S.C.
and Subsidiaries

32nd Annual Report
2010

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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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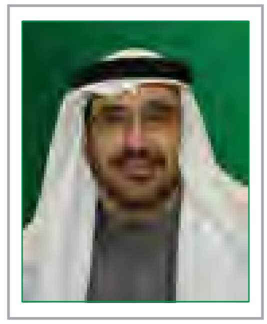
Corp@kfh.com
www.kfh.com

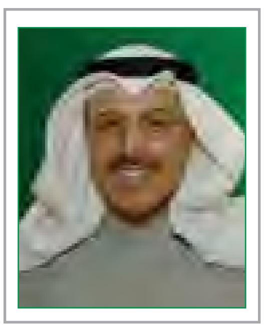
Contents

Security

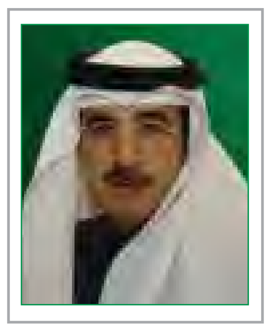
Chairman and Managing Director
Bader Abdul Muhsen Al-Mukhaizeem



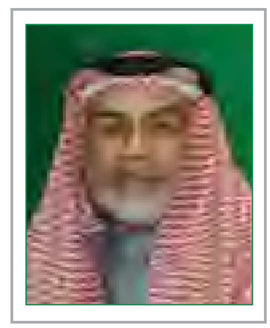
Deputy Chairman
Sameer Yaqoub Al-Nafeesi



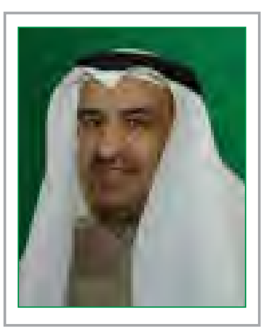
Board Member
Mohammed Ali Al-Khudairi



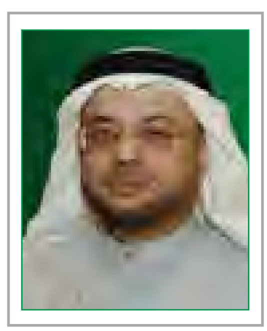
Board Member
Saud Abdulaziz Al-Babtain



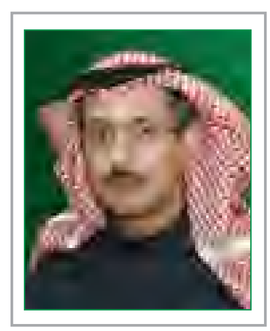
Board Member
Ali Mohammed Al-Elaimi



Board Member
Essam Saud Al-Rashid

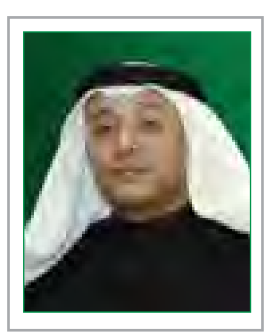


Board Member
Dr. Mohammed A. Al-Sherif

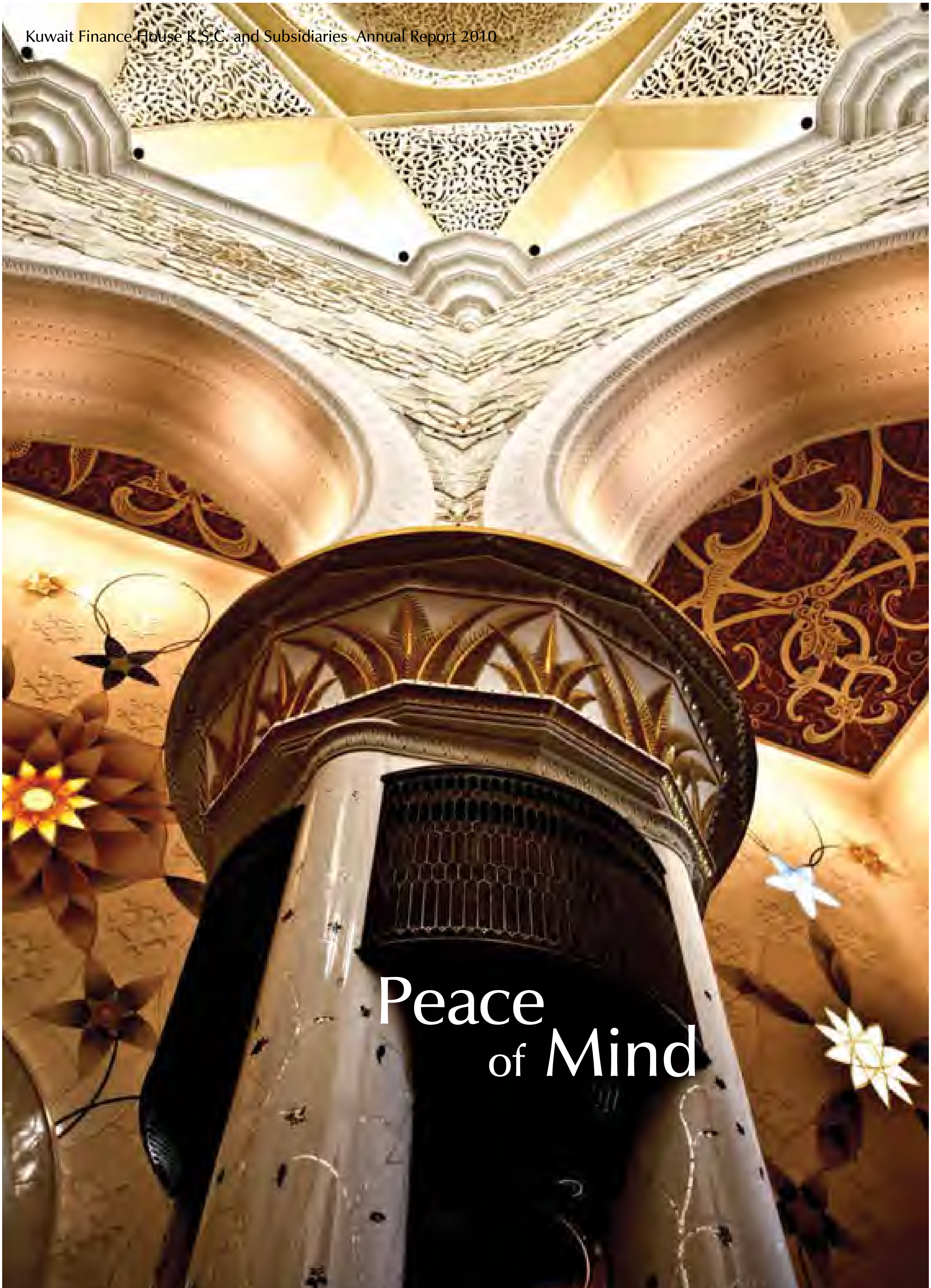


Board Member
Khaled Abdulaziz Al-Hasson

Board Member
Ahmed Abdullah Al-Omar



Board Member
Adel Abdul Muhsen Al-Subeih



Peace of Mind

To KFH's shareholders:

Al-Salam alaikom wa rahmatullahi wabarakatuh,

Praise be to Allah, Lord of all beings, peace be upon our Prophet Mohammed and all of his family members and companions.

We have reviewed and approved the policies used and the contracts relating to the transactions and applications executed by Kuwait Finance House (KFH) during the fiscal year 31/12/2010. We have also conducted our review to form an opinion as to whether KFH's operations has complied with Shariah rules and principles through fatawa (shariah views) resolutions and guidelines that we issued.

We conducted our review and approved samples of contracts and, agreements, after obtaining information which board considers necessary to provide its view. Through the Shariah Supervisory, review has been conducted random basis on samples of operation which provided returns to all transactions of KFH with shareholders, investors and others. This is based on the annual Shariah audit plan on all departments, periodic reports submitted by Shariah Supervisory Department regarding the auditing operations, field visits and on the operation and the correct implementation of Fatawa and resolutions issued by the Shariah Board.

We obtained all information and explanations that we consider necessary in order, to provide us with sufficient evidence to give reasonable assurance that KFH has not violated Shariah rules, basis and principles.

Through the procedures and steps that we have taken, we are of the view

1- The contracts and transactions entered into by KFH during the fiscal year 31/12/2010 that we have reviewed are in compliance with the Shariah rules, principle, and the resolutions and the recommendations of Shariah Board.

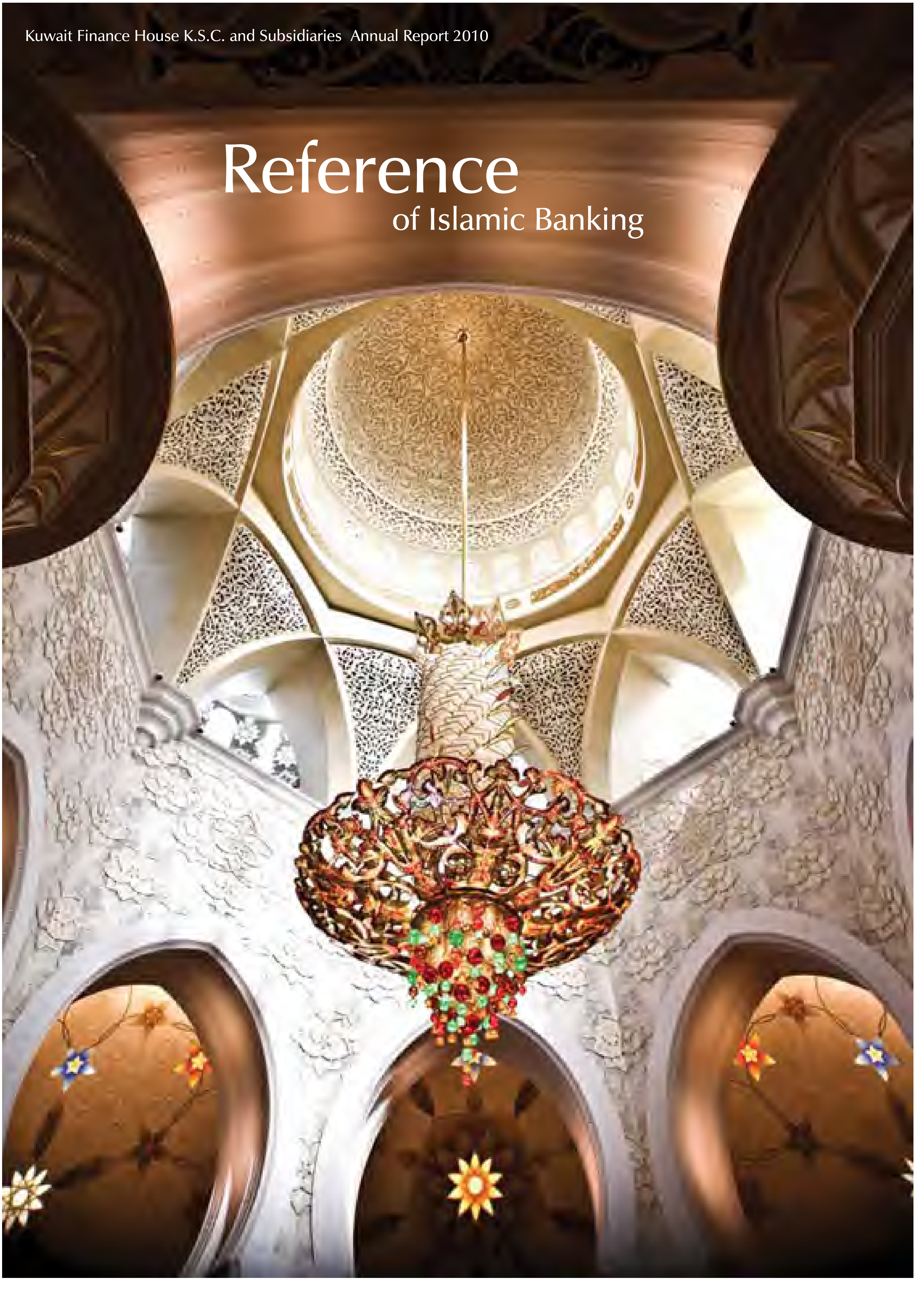
2- The allocation of profits and losses for investment accounts conform to the basis that had been approved by us in accordance with Shariah rules and principles.

3- All earnings that have been realized from sources or by means prohibited by Shariah have been disposed to charitable causes.

4- The calculation of Zakat is based on Shariah principles and the resolutions of the Shariah Board.

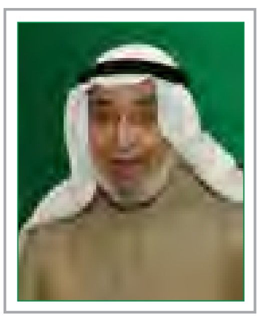
Peace be upon our honorable Prophet Mohammad, his family members and companions and praise be to Allah, Lord of all beings.

Reference
of Islamic Banking



Chairman

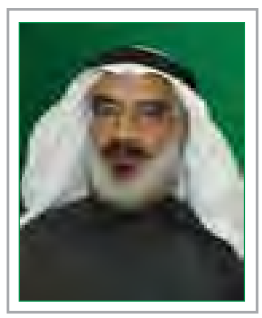
Sheikh Ahmad Bazie Al-Yaseen



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

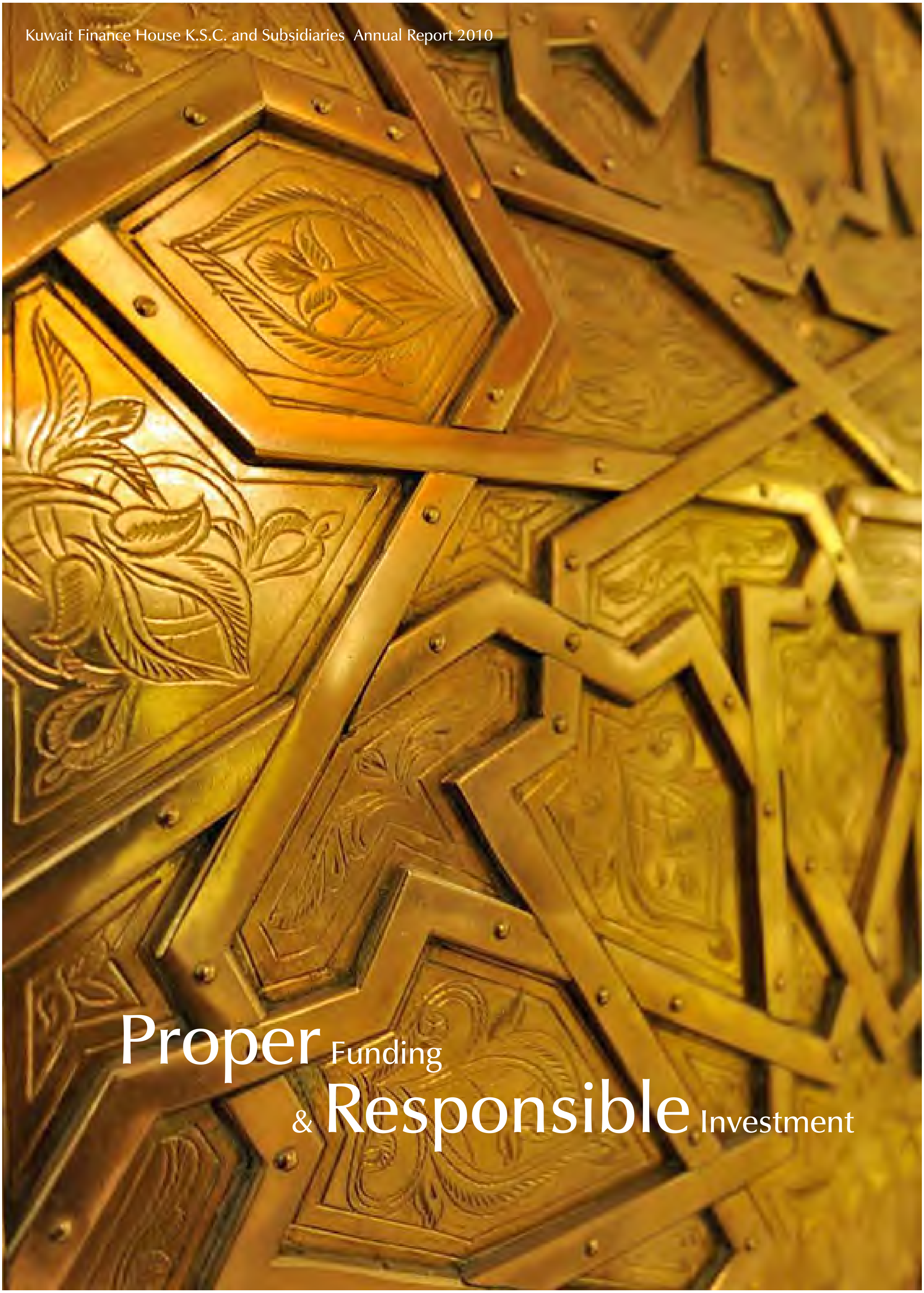
Sheikh Dr.

Mohammad Abdul Razak Al-Tabtabae

Shareea'ah Board Member

Sheikh Dr.

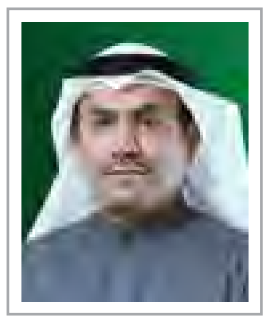
Mubarak Jaza Al-Harbi



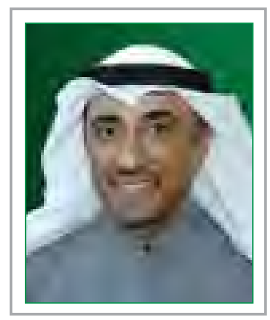
Proper Funding & Responsible Investment

Chief Executive Officer
Mohammad Sulaiman Al-Omar

Assistant General Manager
Emad A. Al-Thaqeb

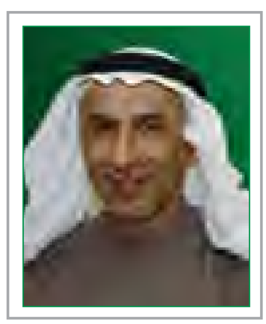


Assistant General Manager
Mohammad Naser Al-Fouzan

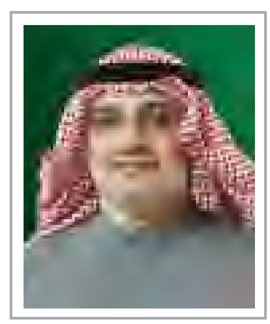


Assistant General Manager
Ahmad Mohammad Al-Khaled

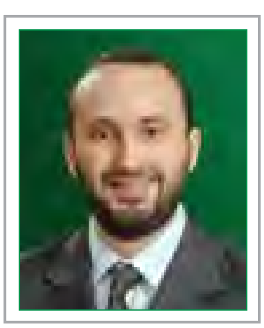
Assistant General Manager
Abdul Aziz Al-Jaber



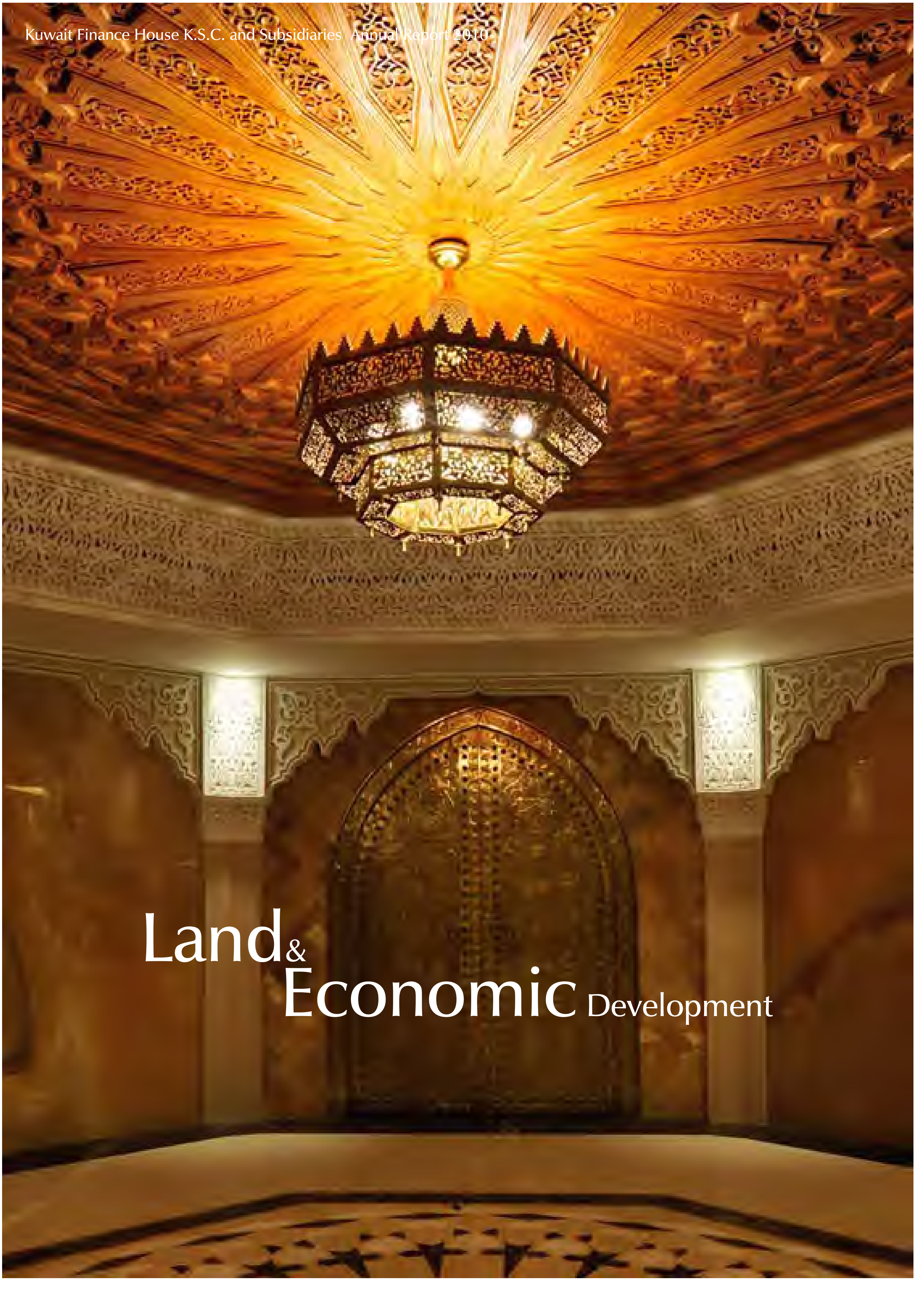
Assistant General Manager
Dr. Waleed Essa Al-Hasawi



Assistant General Manager
Abdulnaser Abdul Muhsen Al-Subeih



Assistant General Manager
Mohammad Saeed Abdul Wahab



Land & Economic Development

Bader Abdul Muhsen Al-Mukhaizeem
Chairman and Managing Director

33 Years of Security and Peace of Mind

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 Judgement.

Ladies and Gentlemen,

It is a great pleasure for me to welcome you to the 32nd meeting of the General Assembly. I am pleased to present to you the Kuwait Finance House (KFH) annual report for the year ending 31 December 2010, which includes the report of the Fatwa & Shari'a Supervisory Board (FSSB), in addition to the achievements of the past year, the latest local, regional and international developments, KFH financial results as well as its subsidiaries , and the auditors' report.

In 2010, KFH received many awards, which confirms its ability to carry out its strategic plans to expand and grow while facing its challenges successfully. According to The Banker Magazine that ranks the top 1000 banks worldwide, KFH took first place among other local banks as the best regional and international Kuwaiti bank. Furthermore KFH won the Citibank award for leadership and excellence in electronic payments and first place for the best bank providing real estate services and best Islamic bank in Kuwait as well as GCC according to Global Finance Magazine, which highlights its strength, solvency and ability to manage diverse risks. Lastly, KFH was awarded as the best bank in project application for storing collected data in the region by Sybase, one of the world's largest leading international organizations in database and information technologies.

KFH has achieved distinguished growth during the past 10 years. The KFH asset base increased 5 times from KD 2.4 billion in 2001 to KD 12.5 billion in 2010 with a yearly growth average of 18.1%. Deposits increased 4 times from KD1.8 billion to reach KD 7.6 billion with a yearly growth average of 15.7%. Shareholders' equity increased 6 times from KD 239 million to reach KD 1.290 billion, with a yearly growth average of 18.3%. In addition, operating revenues increased 5 times from KD 143 million to reach KD 736 million, with a yearly growth average of 17.8%. Net profits witnessed a noticeable growth from KD 51 million to reach KD 106 million, with a yearly growth average of 7.5% during the past decade.

By the grace of Allah, KFH continued to focus on recovery from the global financial crisis, which is entering its third year, and has created radical developments at the political level around the world; its effects continue despite the exceptional local, regional and global efforts to limit the great global recession. Such efforts have begun to show indications for an economic recovery. Yet these indications alert us that sustained economic recovery is still tentative because of the high rates of unemployment. Efforts to address the problems arising out of the crisis in the financial systems of the developed economies have not yet been completed.

Furthermore, market fluctuations increased and the confidence of investors declined. Prices fell in several stock exchanges starting with European stocks and it affected the banking system due to heavy sales of the sovereign debt by weak economies in the Euro Zone, consequently a new systematic crisis began in 2010, which led to increased concerns about how far the recovery would continue. Following unprecedented initiatives at the European political level, financial conditions improved again, but the main weaknesses at the sovereign and banking levels still represent a great challenge among concerns about the consequences of these risks, which are threatening a global recovery.

In the middle of such turbulent international environment, KFH remained, thanks to Allah, more stable, more established and capable of managing the challenges caused by the global financial crisis. 2010 was a year of consolidation and cohesion. KFH proved that it has the ability to manage the different variables it had faced. KFH surpassed these challenges by resuming its focus on its distinct segments. During 2010, KFH rearranged the elements of its investment portfolio. It supported its subsidiaries with unified strategy and increased investment instruments with fixed income, limited risks as well as enhanced liquidity conditions and maximized revenues. In addition, KFH focused on its financial, economic and social role to serve other markets and focus on regional markets. KFH continued to establish the rules of the Islamic financial service industry strictly based on the principles and ethics of Islamic banking, which are derived from the honorable Sharia' principles. KFH adhered to this framework in order to promote its local, regional and international status as one of the most important pioneers of Islamic banking. This, in turn, is based upon diligent study and growth in the context of risk management.

Emerging markets were a key focus, wherever KFH existed, as emerging markets compared to developed markets witnessed remarkable growth. The Saudi Kuwaiti Finance House managed to gain a foothold in the promising Saudi market. Recently, it obtained a license to provide the first real estate investment fund in the Kingdom of Saudi Arabia (KSA) for 500 million SR. "KFH Real Estate" invested in the Saudi real estate market with more than 3 billion SR, which is growing despite the global financial crisis. Through KFH Turkey, KFH invested in the Turkish market which also experienced exceptional expansion. KFH released distinct products such as the one of a kind Gold investment fund,


The World...
is your Home

which is the first of its kind; this fund was provided through the Istanbul Stock Exchange in addition to providing a Sukuk transaction of US$100 million, which was oversubscribed by 150% from several large regional and global banks, which reflected great confidence in the bank and its performance.

KFH's expansion policy continued in a new direction, after KFH Turkey opened its first branch in Mannheim Germany in addition to opening a branch in Dubai. Currently it is planning to open 15 more branches to its existing 141 branches. KFH Malaysia reached 8 branches as well as KFH Bahrain reached 8 branches. KFH has 52 branches in Kuwait, which all represent a series of consecutive successes so that the number of KFH branches now reach 209 branches around the world.

Credit Rating

More than 30 years ago, by way of a special Amiri Decree, KFH laid the foundation for its success in March 1977. During the early years, KFH witnessed successive positive developments and managed to establish a unique Islamic financial presence while it continued to grow at a steady pace. KFH has been working diligently since its foundation within a framework of safety and peace of mind which is represented in its logo. KFH has become the second largest Islamic bank worldwide because of its assets, financial solvency, and strong capital base. This, in turn, has been reflected in its high performance, the responsiveness and confidence of its customers, its leadership in the Islamic banking market providing services for individuals, companies and governments alike, and its ability to generate profits, even in the biggest financial crisis of the 21st century.

International rating agencies have reaffirmed KFH's high credit rating in 2010 in accordance with the certification of the international rating agencies as follows:

KFH Credit Rating 2010

Rating Agency	Long-term rating	Short-term rating
Capital Intelligence	A +	A-1
Fitch	A +	F-1
Moody's	Aa 3	P-1
Standard & Poor's	A -	A-2

Regulatory Framework & Risk Management

KFH continues to promote policies and procedures which limit the implications and consequences of the global financial crisis. In other words, it has developed control means and instruments, which contribute to the efficiency of the internal control and risk management systems: they also improved the tools and methods of the regular review for aspects and components of the internal and external environment surrounding KFH acts and activities. These include continuous development of risk management strategies to conform to the general strategic trends of KFH Group in such a way that they guarantee a unified framework and systems, which are used in control and risk management, a comprehensive overview of these systems, and how to manage them.

KFH continued to update its stress test scenarios following the guidelines of the Central Bank of Kuwait (CBK), and the adopted policies of the KFH Board of Directors. Operational risk assessment began, and in 2010, KFH adopted the Internal Capital Adequacy Assessment Process as well as stress test policies, disclosure, portfolio trading and portfolio banking. Such policies were then put into effect. KFH managed successfully to install the SunGard software, which is one of the latest global systems that accurately monitor KFH operational risks in Turkey and Bahrain.

KFH also installed and integrated the latest automated systems to compile and link financial statements between Kuwait Finance House and its affiliates, ensuring accurate and rapid compilation of financial and administrative data. KFH also applied a comprehensive system to estimate budget and financial planning in addition to the latest automated systems to calculate the Capital Adequacy Ratio [Basel II].

Banking Products & Services

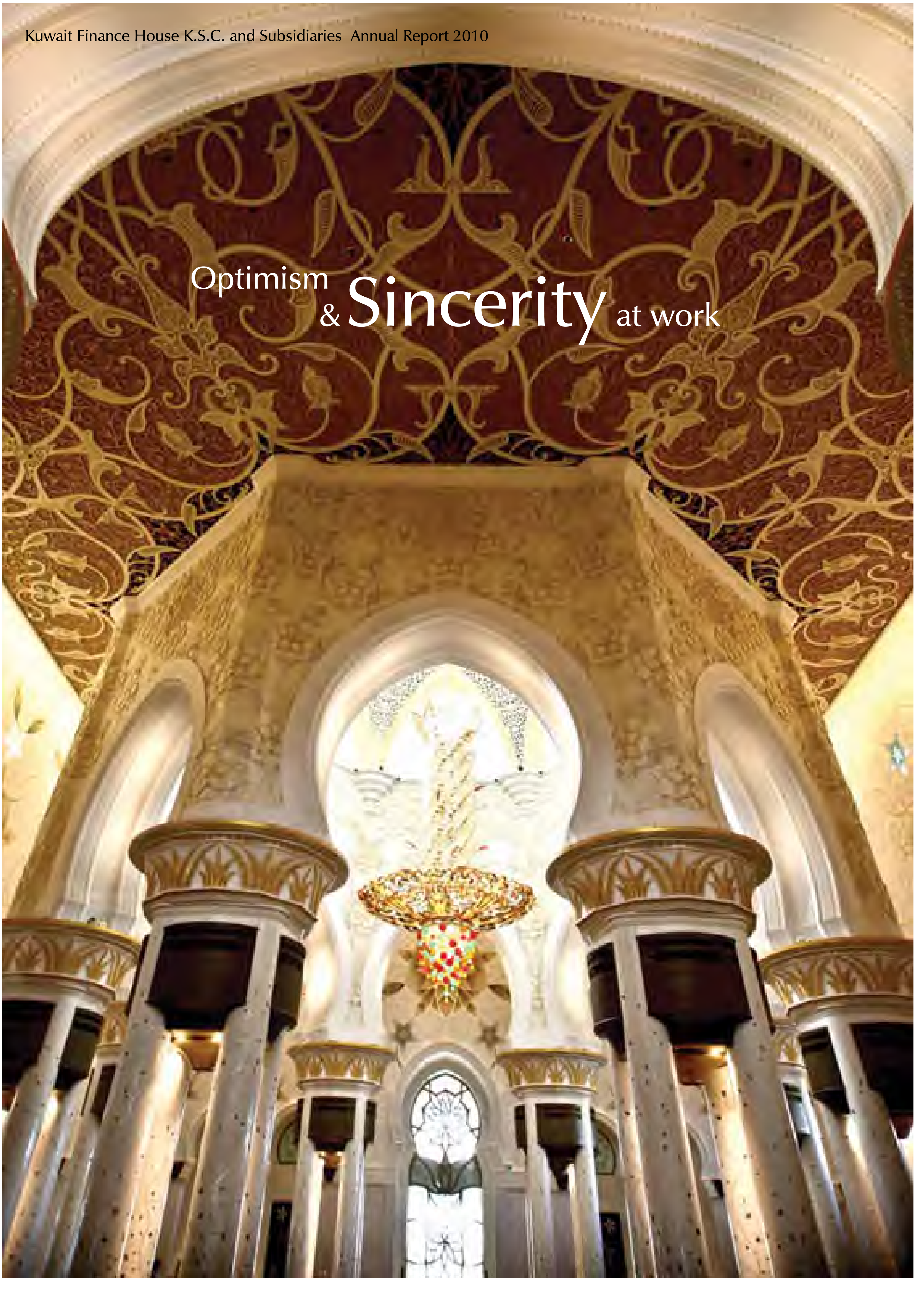
KFH continued to lead the way among local banks to attract customer deposits, which reflects continued consumer trust. To preserve this trust and attract new customers, KFH continued to develop its banking services through diverse channels whether electronic or direct services. At the electronic service level, KFH intensified consumer awareness of pre-paid cards.

Within this sphere, KFH developed the family card (Al-Ousra); it is the first bank that provides such a creative solution and a flexible link between family members and KFH. This card can be charged directly through the KFH website which has been updated with new content and design, secure mechanisms, and new services for customers and companies alike. All of this supports the KFH communication strategy to raise awareness of KFH online services as a communication channel supporting the branch.

To reiterate: KFH was recognized as the best electronic bank in Kuwait by the prestigious Global Finance Magazine in its 2010 report covering the best banks in the Middle East and Africa. Global Finance Magazine had followed KFH projects and its continuous keenness for giving a technological characteristic to its services. It provided solutions for airline e-payment and ticket booking and payment via the internet. KFH developed and improved the performance of the call center staff who work efficiently around the clock.

Regarding KFH geographic expansion, two new branches in Jaleeb Al-Sheyoukh and Al-Jahra were opened, and the branches of Al-Sharq and Al-Shuwaikh were renovated. Three branches will open in Al-Bahr Complex, Hawalli, Al-Babtain Complex, Sharq Area, Suk Al-Fardha, and Al-Sulaibeya. To date KFH has 52 comprehensive branches including 38 women's sections.

KFH intensified its direct services, which aim to reach customers everywhere, developing mobile car services, cash and check deposits, in addition to regular ATM services. Currently there are 183 ATM machines in service. KFH also launched a new marketing initiative. Group of vehicles carry the KFH logo with support staff specializing in marketing, promotion and direct sales. They are trained to reach direct communication with its customers.


Optimism
& Sincerity at work

In a new initiative, KFH made use of Smart mobile devices such as iPhone, iPad and BlackBerry. Various information services were provided for customers with these devices, enabling them to obtain information from KFH on the branches network coverage, on foreign currencies, or KFH campaigns. In a subsequent phase for these mobile devices, the IT sector developed a banking transaction system so that customers could transfer money, and inquire about balances and transactions through KFH Online.

Service Quality

Customer service is crucial to KFH growth. KFH sought to improve quality of service by simplifying and streamlining bank processes which reduced waiting times at different KFH branches. This simplified process was extended to how debit cards were delivered as well as saving documents and developing service centers for companies and institutions. Five banking facilities were opened to serve companies in Khaitan, Al-Jahra, Fahaheel, Shuwaikh, and Sharq as well as a stock trading facility that was opened in Kaifan branch. KFH applied service quality assessments for follow-up and performance benchmarks commonly known as the 'Mystery Shopper'. KFH employees were also recognized for their excellent service, performance and dedication to serve KFH customers.

To accelerate business processes, KFH installed an automated system for processing and reviewing transactions coming out of, or into K-Net, as well as ATM transactions. In addition, KFH carried out a project for aligning transactions of KFH customers in Kuwait from operating units in the Kingdom of Bahrain, Malaysia and Turkey, effective July 2010.

Commercial Services

The KFH Commercial Sector promoted the retention and growth of its market share by diversifying its marketing and commercial activities, increasing incentive programs, sending educational information to its customers, and endeavoring to open new branches. Because of its quality service and benchmark indicators to continue to attract new customers, KFH took first place in the consumer financing market especially growth in automobile financing and construction materials. KFH continued to support the local market by financing sale, purchase and leasing transactions. It contributed to the local economy by pumping US$1.8 billion (KD 507 million) into different commercial sector markets in 2010.

Investment Services & Products

The KFH investment sector focused on finding investment opportunities with rewarding operational returns: it studied the market risks of investing in various assets. KFH Investment Sector studied international companies with high solvency and good reputations as well as selected the largest emerging and mature markets with great economic strength, power and political stability. Many feasibility studies were conducted for entering new investment projects in cooperation with international companies specializing in asset quality assessment, and then KFH entered into strategic alliances with very experienced partners.

Credit Services

KFH managed to finance many projects, which kept pace with Kuwait's development plan, and it made internal preparations to address any credit demands required once state projects were put into effect. KFH Credit Department diversified its financing of all types of sectors and economic activities; it focused on the business sector to activate sales, to encourage the engine of economic growth for companies, ensure the process of finance towards commodity purchases and improve the asset quality in line with market demands such as Murabaha, general contract, leasing and Istisnaa. Finally, KFH worked diligently to carefully select customers with special financial solvency by following the most prudent methods of following up on guarantees and their assessments.

Local Real Estate Services

KFH holds a pivotal place in the field of real estate finance and management, managed by a separate, highly experienced group in the development of real estate management in the region and North Africa.

During the last year, KFH focused on several variables to develop real estate portfolios that customers could invest in with profitable returns. Last year the second KFH real estate portfolio had a capital base of KD 50 million. To continue to spread real estate awareness, KFH issued a number of real estate reports, which addressed Kuwaiti real estate issues, growth developments, and trends. The quarterly KFH real estate report became an important reference for investors and decision makers alike. KFH continued to develop effective communication with its customers using the internet and SMS technology.

Technological Developments & Support Services

KFH IT Sector supports all KFH systems in its various sectors and departments. One specific IT focus continued to be the capacity of IT devices, systems and networks, which included updating or substituting devices and systems to match service requirements including the development of infrastructure control systems, early warning, backup sites to save data, customer systems, mechanization of the internal audit process for clearing checks, applying the Data Warehouse System, which contributes to the organization and management of saving, handling and retrieving all documents electronically, communications, and transactions of all different departments. A 'Mosaic' system was developed for the banking sector: in other words, the means of protecting the security of the systems and networks were increased.

One of the biggest achievements of the Information Technology sector is perhaps the inauguration of the new KFH credit system. It enables customers to obtain credit services more efficiently. The application of such a system is a step towards unifying all the systems and providing a unified front for all KFH customers. To that end, Trade Wind, a documentary credit system, has begun covering all department needs and requirements, which resulted in efficient and rapid results for improving customer service.

Partnership

For its website developments, KFH won the Best Technical Award at the Islamic bank level for the Middle East.

Human Resources

KFH Support Services and Human Resources focused on specific recruitment programs for graduate students following careful hiring criteria. The development of professional competencies and certification continued apace by obtaining the Certified Islamic Banker as well as the permanent support of essential CFA, FRM, CIA, CLBB and CBBM certificates. At the same time, KFH preserved the ratio of Kuwaiti employment, which reached 60%.

Social Responsibility

At KFH we understand that we are part of society, a solid thread woven into its very fabric. This impels us to assume our responsibility through cooperation and coordination with active governmental institutions in charitable endeavors and community social activities.

In 2010 KFH continued its efforts in social responsibility. Through its activities and contributions to support community efforts, KFH followed the vision of its social role through, adherence to its Kuwaiti environment, and engagement with the world particularly in fields which are considered as basic social pillars. Such pillars include education, health, youth, serving people with special needs, taking care of the needy, assisting needy families, and supporting charitable and social activities of many official bodies and associations. In 2010, KFH social activities focused on many projects. The most distinctive was the donation to Zakat House of KD 3.4 million, 15 Aid Centers expected to cost KD 1.5 million (some centers were opened recently), and the construction of chalets for people with special needs in Al-Zour at a cost of KD 1 million. Recently, KFH also provided a donation of US$2 million for flood relief in Pakistan.

Balance Sheet

Total assets reached KD 12.548 billion at the end of the year with an increase of KD 1.258 billion equal to 11% growth as compared to the year 2009. As for liabilities, clients' deposits balances have reached KD 7.649 billion with an increase of KD 387 million equal to 5% over the previous year. Shareholders' equity has reached KD 1.290 billion with an increase of KD 48.5 million equal to 4% compared to the year 2009.

Revenues

Total realized revenues for this year have reached KD 736 million. After deducting the various expenses and provisions, profit before allocations reached KD 273 million.

Shareholder Profit

Net profits for shareholders' reached KD 105.983 million.

Profit Allocation:

Profits are allocated to investor depositors for the Financial Year ending December 31, 2010 as per the following table:

Account Type	2010	2009
Continous Investement Deposits	2.378%	2.780%
Sedra Deposits	1.850%	2.162%
Saving Investment Account	1.585%	1.853%

Review of Economic Developments

First: Kuwait Economy

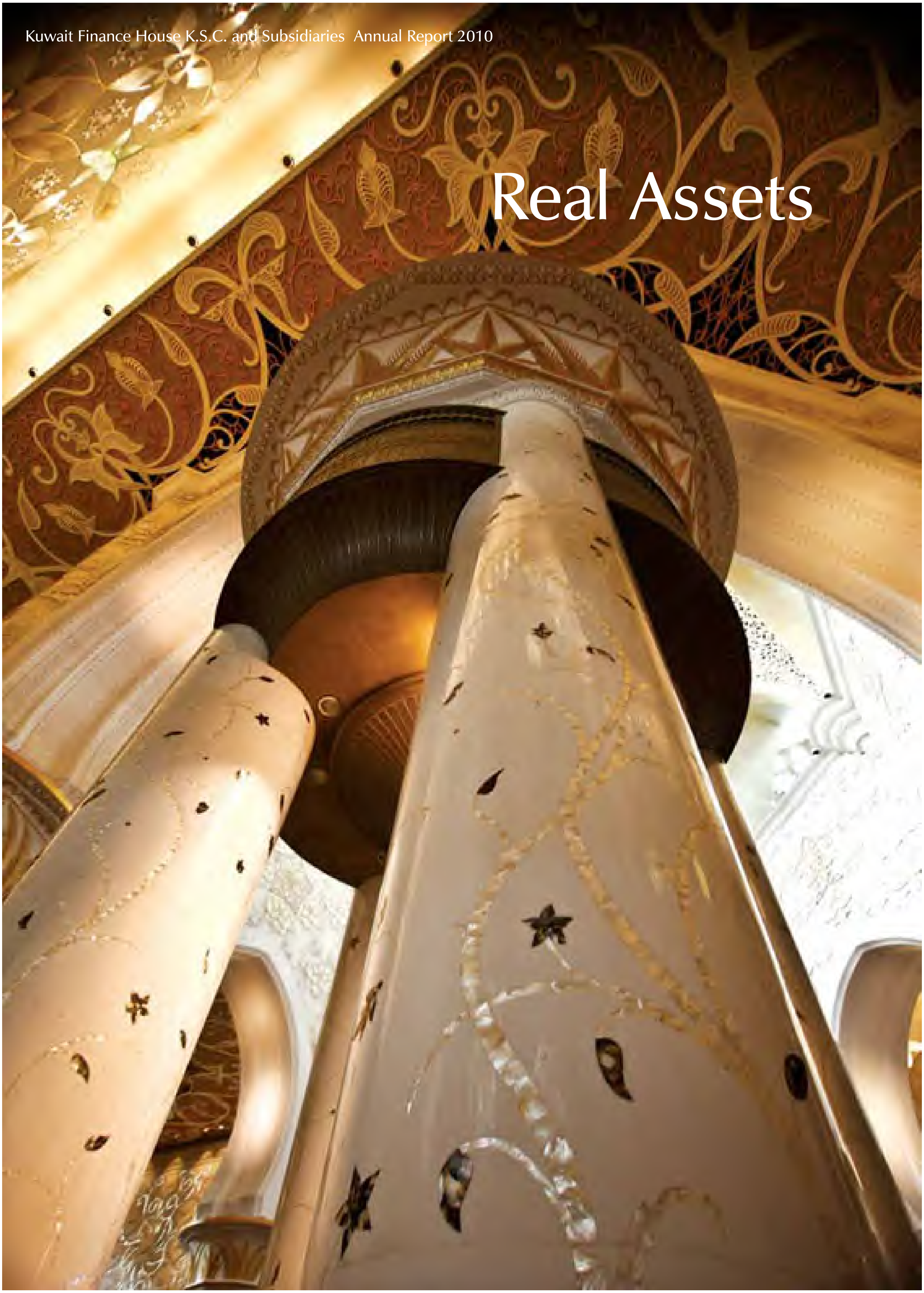
In 2010, the Kuwaiti economy witnessed a number of developments: the most distinctive was an economic recovery, regaining its growth pace in 2010-2011 after witnessing a decline in 2009 due to the global financial crisis. Correspondingly there was a decline in world oil prices and production rates, which was reflected in the oil sector in 2009 which contracted by 11% due to a decrease in production volume from 2.78 million barrels to 2.48 million barrels daily. Exports declined at a higher rate due to OPEC decisions, and the effect of the global financial crisis on the non-oil sector leading to a decline in 2009- 10 growth estimations by the International Monetary Fund (IMF).

It is well known that Kuwait's oil sector still represents 59% of GDP, more than 80% of government revenues, and more than 90% of total export earnings. The proportion of non-oil sectors in the economy is relatively limited, which makes Kuwait more vulnerable to external shocks especially in relation to world oil demand and its prices.

The IMF expected that the total GDP would reach US$144.1 billion and grow by 3% in 2010 compared to previous expectations of 3.7% and 2%, and compared to a negative growth rate of 4.2% in 2009. The Central Bank of Kuwait intervened, decreasing interest rates consecutively since the global financial crisis began in 2008. There were six decreases in interest rates, the last occurred when CBK decreased the discount rate in February by 50 basis points to reach 2.5%; it pumped liquidity into the banking sector, approved a law to guarantee deposits and proposed a law concerning financial settlement to maintain the strength of the domestic banking sector.

It appears that the response of the Kuwait economy and the movement of its economic sectors will be through a financial policy to expand the size of government spending, increasing projects under the five year plan approved by the National Assembly of Kuwait for 2010-2014. In addition it will use available financial and cash instruments, and banking finance through the local banks. The five year plan, which began in February 2010, coupled with a number of economic laws, would outperform IMF expectations, which indicate that Kuwait economic growth could be 4.8 % in 2011.

Real Assets



Economic revitalization by the five year plan and increased local spending by 33% over that period can promote growth. Various policies have been adopted to develop and expand the private sector and increase citizen participation in economic cycle by allowing them to engage more in economic activities, enhance the productive role of the middle class, confirm active partnerships between the public and private sectors, start large projects, implement privatization projects after approval of the Privatization Law by the National Assembly within the context of other laws. These laws include the Labor Law and Capital Market Authority Law which would be linked to improve and develop the legislative environment to contribute to improve the investment and economic climate in general.

Certainly, increased capability of the government for further capital spending would improve economic growth in the country especially in the productive and real estate sectors, which began to grow in the first half of 2010. These sectors began to move with the return of an active real estate market and the emergence of several public and private real estate developments. This means that the demand for real estate and its prices will increase, and the real estate asset value of investment portfolios will rise, which will positively affect the non–oil economic sectors. To enhance the trust of real estate developers and improve the flow of sales, an official Real Estate Clearing Company was initiated. Despite the global recession and the sovereign debt crisis in some of the Euro Zone countries, oil prices remained within reasonable limits in 2010. The price of oil peaked at the end of 2010 by exceeding US$90 per barrel: the average price of oil price in the first half of 2010 reached US$77 per barrel compared with US$59 in 2009. This was higher than the proposed oil price rate in the state budget, which amounted to US$45 per barrel as well as the development plan, which amounted to US$35 per barrel at lowest estimations - that gave the local market more ability to grow in the coming stage.

Kuwaiti Economic Indicators in 2009-2011

Statement	2009	2010	2011
Real GDP (Billion KD)	31.5	41.2	43.3
Real GDP (Billion USD)	109.4	144.1	153.4
Real Growth Rate (2.4%)	-4.2	2	3.4
Average Income Per Capita (USD)	39,133	50,322	52,433
Population	2.8	2.9	2.9

Sources: BMI forecasts, Central Bank of Kuwait, State Planning Organization, World Bank

Second: Gulf Economy

Despite the pressures of the global financial crisis, positive growth continued strongly and the performance of the Gulf State economies improved in terms of growth rates and surplus rates of the current account. The Gulf economy is expected to exceed internationally recorded growth with a rise in price of oil commodities. Estimations indicate that the GDP of the six states would reach US$1,054 billion in 2010 and US$ 1,169 billion in 2011 compared to US$896 billion in 2009.

The prospects of the GCC economy improved with the rise of oil prices; however, the positive view was distorted by some pressures in the banking system and slow credit activity. The Gulf monetary institutions and the central banks showed their capabilities to move rapidly and effectively to limit the repercussions of the recent global financial and economic crisis on GCC economic conditions. A number of monetary and control actions were initiated to improve GCC economic performance. The 51st GCC Committee of the Governors of the Central Banks and Monetary Agencies called for efforts to control and supervise these spheres to keep pace with the new reality caused by the financial and economic crisis. Such a crisis created a new banking and financial reality that required guidance, integrated regulatory frameworks and performance following accurate controlling and supervisory rules and regulations.

IMF expects GDP in Qatar to reach approximately US$128.2 billion, in UAE US$270.9 billion, in Kuwait US$150.6 billion, in Bahrain US$21.3 billion, in Oman US$56.2 billion and in the Kingdom of Saudi Arabia US$451.7 billion.

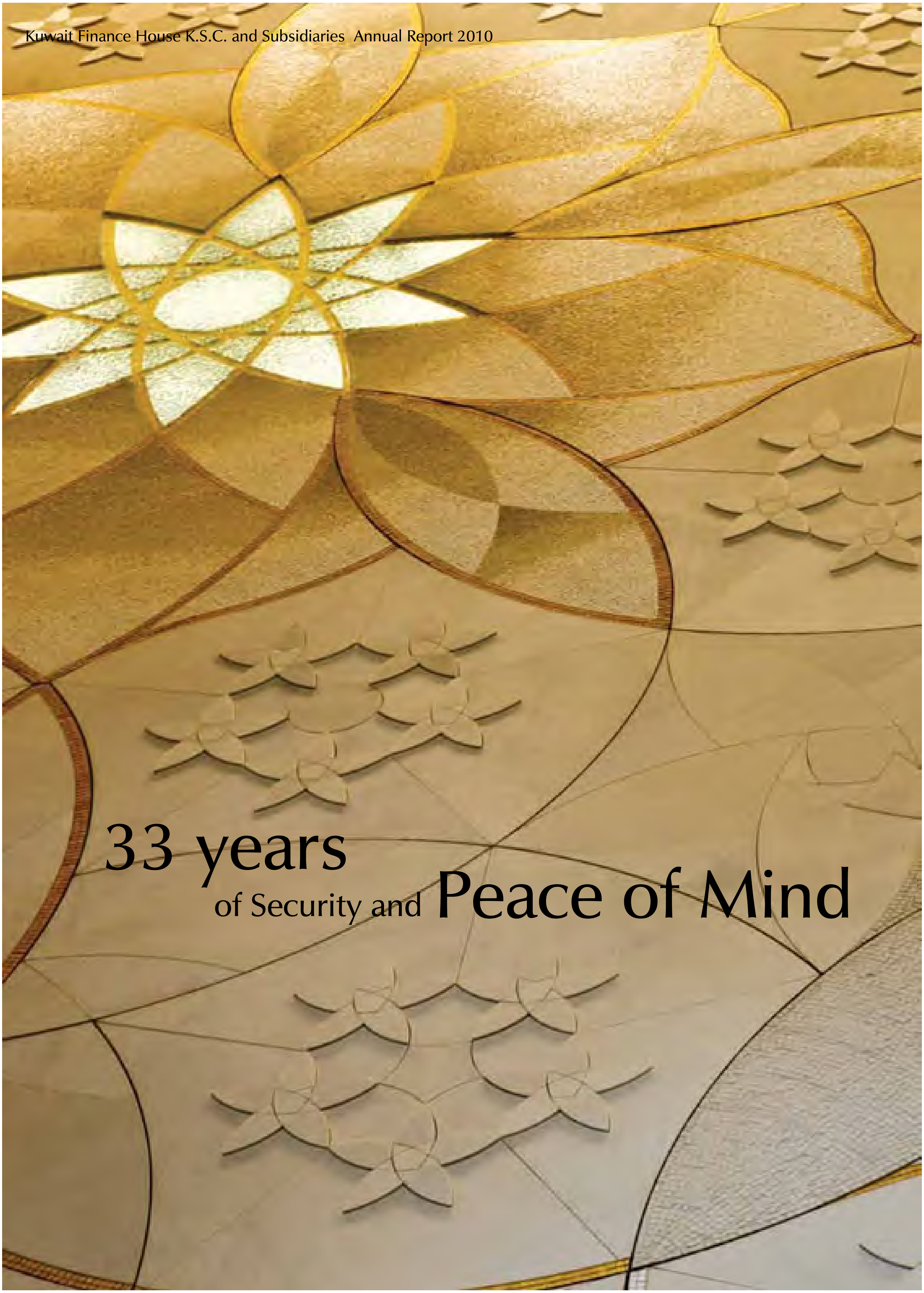
Concerning the Qatari economy, Qatar attained the highest Gulf growth in 2010 with 16% in 2010 along with a surplus in the state budget. The Omani economy attained growth of 4.7% in 2010. In the Saudi economy the growth rate reached 3.4% in 2010 with the support of the large government investments in major infrastructure projects. In 2010 UAE economy recorded a growth rate of 2.4%, the Bahraini economy recorded a growth rate of 4%, and the Kuwaiti economy attained a growth rate of 2.3%.

	GDP			Consumer Prices			Balance of the Current Account		
	Expectations			Expectations			Expectations		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
KSA	0.6	3.4	4.5	5.1	5.5	5.3	6.1	6.7	6.2
Bahrain	3.1	4	4.5	2.8	2.6	2.5	2.7	5.2	5.5
UAE	-2.5	2.4	3.2	1.2	2	2.5	4	5.4	5.6
Kuwait	-4.2	2.3	4.4	4	4.1	3.6	29.1	30.1	30.3
Qatar	8.6	16	18.6	-4.9	1	3	14.3	15.6	23
Oman	3.6	4.7	4.7	3.5	4.4	3.5	-0.6	5.8	6.1

Source: International Monetary Fund (IMF)

Third: World Economy

Vulnerability is still a continued risk together with high unemployment rates in many developed and emerging countries alike. The recovery gained strength in the first half of 2010 exceeding IMF expectations. Global activity increased from 4.1% to 4.3 % as a consequence of better than expected growth in the manufacturing sector. For 2011, global activity is projected to increase from 3.6% to 3.8% as a result of an increased reserve, fixed investment as well as higher manufacturing activity and world trade volume. Yet consumption is still constrained in many emerging economies because of issues of consumer trust as well as declining incomes and fortunes in the family sector.



33 years of Security and Peace of Mind

The crisis of the sovereign debts in weak economies in the Euro Zone in the second half of 2010 affected the banking system because of heavy sales of sovereign debt bonds from these states. This created a regulatory crisis as well as constant concerns about how far the recovery could continue. They also caused a wide decline in shares especially in the European stock exchanges as well as unstable currency prices, emerging indicators of currency wars, and unprecedented high prices of gold. Despite the actions taken by European rescue programs, the main weaknesses are still a great challenge in the midst of the remaining concerns that threaten the world's recovery.

Economic policy makers initiated a number of measures at the level of the monetary and financial policies. Such policies were adopted in a consistent manner within the Group of Twenty. Recovery signs appeared in the second half of 2009 as growth continued in 2010. However recovery was still modest and uneven because growth was relatively weak, while, at the same time, emerging markets and developing countries were experiencing a positive outcome. The World Bank expected that the world's GDP would increase by 2.9%: 3.3 % in 2010 and 2011, and would be strengthened in 2012 to reach between 3.2% and 3.5% reversed a declining trend of 2.1% in 2009. The growth rate in developing countries was expected to be from 5.7 % to 6.2% per annum in 2010–2012. Nevertheless, the growth rate of developing countries would be within 2.1% - 2.3% in 2010, which was not sufficient to eliminate effects in 2009 of -3.3%, followed by a growth rate of 1.9% to 2.4% in 2011.

Accordingly, economic recovery became a pressing goal. The recovery that began in high-income countries (for more than a year) lost its impetus; unemployment rates remained high. The slow recovery was evident in the USA rather than other national states; the growth rate in the second quarter of the current year did not exceed 1.6 %, and remained steady in the third quarter. The recovery of the housing market is still questionable. Creating job opportunities is painfully slow.

The situation of the Euro Zone during the first half of 2010 was better because of Germany's growth, yet the German economy also weakened following a slowdown of international trade. The Japanese economy, which also depends on exports, weakened as well. Some emerging economies in Europe experienced unprecedented growth such as Turkey whose economy grew by 7.8% in 2010 exceeding expectations of the Turkish government for 6.8 %.

The Organization for Economic Cooperation and Development (OECD) expectations, issued in September, indicated that the annual growth rate in the economies of the Seven Major Industrial Countries would not exceed 1.5% in the second half of 2010, i.e. 1% less than anticipated by the OECD last May. Moreover, some economists warn about retreating into a deep recession again. Even optimistic expectations indicate that 2011 economic growth will be less than what was expected, taking into account that Germany may be the only exception.

Asia experienced positive growth; in fact it managed to lead global growth. IMF estimated that the GDP would be on average 8.7% in 2010 affected by strong growth in China and India. At this point we can say that the growth engines in Asia continue to move ahead with continued revitalization in exports and main commodity prices, which strongly support private domestic demand.

And finally, we thank Allah for His grace and successes granted to us by Him. We pray to Allah – He is exalted above weakness and indignity – to crown our endeavors with success. We desire to achieve KFH objectives for the goodness of our beloved nation and kind customers under the leadership of His Highness Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah protect them. I extend my thanks to all official regulatory authorities, our kind customers and all KFH staff who combined their efforts to support the mission of this great Islamic institution.

Bader Abdul Muhsen Al-Mukhaizeem

Chairman & Managing Director

Capital Adequacy Disclosure

Capital Adequacy Disclosure

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 covering 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 consolidated subsidiaries› (collectively the “Group”) are engaged in providing Islamic banking and finance and investment services that comply with Islamic Shari’a. The subsidiaries are fully consolidated into the Bank’s financial statements based on similar accounting policies. The associates’ activities include Takaful insurance is accounted for using the equity method of accounting. Details about subsidiaries and associates are as follows:

1. Subsidiaries:

1.1 **Kuwait Finance House (Malaysia) Berhad:** is a 100% (2009: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.2 **KFH Private Equity Ltd.:** is a 100% (2009: 100%) owned investment company registered at the Cayman Islands. Its main activities comprise global private equity investments

1.3 **KFH Financial Services Ltd:** is a 100% (2009: 100%) owned subsidiary company, registered in Cayman Islands. It has one subsidiary and one associate company. Its main activity is the real estate sector out outside Kuwait.

1.4 **Muthanna Investment Company KSC (Closed):** is a 100% (2009: 100%) owned investment company. Its activities, which comply with Islamic Shari’a include investments, Islamic financing services, equity trading, private equity investments, real estate investments and asset management services.

1.5 **Al-Nakheel United Real Estate Company KSC (Closed):** is a 100% (2009: 100%) 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.

1.6 **Development Enterprises Co. KSC (Holding):** is a 100% (2009: 100%) owned subsidiary whose main activities include owning long-term strategic assets through investment or financing in companies with economic, industrial and other commercial activities.

1.7 **Baitak Real Estate Investment KSC (Closed):** is a 100% (2009: 100%) owned real estate investment company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.8 **Liquidity Management House KSC (Closed):** is a 100% (2009: 100%) owned investment company. Its activities include financing activities, which comply with Islamic Shari’a, and high quality/low risk investments.

1.9 **Saudi Kuwaiti Finance House KSC (Closed):** is a 100% (2009: 100%) owned subsidiary, registered in the Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.10 **International Turnkey Systems Co. KSC (Closed):** is a 97% (2009: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include of providing specialized technical consultancies.

1.11 **Kuwait Finance House (Bahrain) BSC (Closed):** is a 93% (2009: 93%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing products and banking services that comply with Islamic Shari’a, 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.

1.12 **Kuwait Turkish Participation Bank:** is a 62% (2009: 62%) owned Islamic bank registered in Turkey since 1989. 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.

1.13 **ALAFCO – Aviation Lease & Finance Co. KSC (Closed):** is a 53% (2009: 53%) owned subsidiary. Its main activities include the purchase and leasing of aircraft according to Islamic Shari’a principles.

1.14 **Aref Investment Group KSC (Closed):** is a 52% (2009: 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 Shari’a. Aref’s subsidiaries activities include the energy sector, educational services, medical services, transportation and information technology.

1.15 **Al Enmaa Real Estate Co. KSC (Closed):** is a 50% (2009: 50%) owned subsidiary engaged in real estate activities including operating leases.

2. Direct Investment in Associates:

2.1 **First Takaful Insurance Co. KSC (Closed):** is a 27% (2009: 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 Shari’a.

2.2 **Gulf Investment House LSC (Closed):** is 20% (2009: 20%) owned associate. Its main activities include investment and financing activities and financial services advisory services.

2.3 **Sharjah Islamic Bank P.J.S.C.:** is a 20% (2009: 20%) owned associate islamic bank registered in Sharjah – United Arab Emirates since 1975. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

Capital Adequacy Disclosure

2.4 **First Investment Company KSC (Closed):** is 9% (2009: 9%) owned associate. It conducts various investment activities and which comply with Islamic Shari'a 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 according to rules and regulations.

The group does not have structure or complex equity instruments which prohibited with Islamic Shari'a principle.

As at 31 December 2010, Tier 1 "Core Capital" amounted KD 1,415,691 thousand (2009: KD 1,372,936 thousand), Tier 2 "Supplementary Capital" amounted KD 6,772 thousand (2009: KD 11,431 thousand) as detailed below:

	2010	2009
	(KD' 000)	(KD' 000)
Capital Structure		
Tier (1) Core Capital		
1- Share Capital	248,985	230,542
2- Disclosed reserves	1,018,763	991,082
3-Minority interest in consolidated subsidiaries	311,999	324,138
Total (1)	**1,579,747**	**1,545,762**
Deduction from Tier (1) – Core Capital		
1- Treasury shares	26,722	36,662
2- Goodwill	44,163	54,842
3- Unconsolidated institutions	27,451	1,556
4-Significant minority investments	63,595	77,641
5-Investment in insurance entities	2,125	2,125
Total (2)	**164,056**	**172,826**
A) Total Tier (1) capital	**1,415,691**	**1,372,936**
Tier (2) Supplementary Capital		
1- Asset revaluation reserves	2,834	2,033
2- Fair value reserves	(11,610)	(9,071)
3- General provisions	108,719	99,791
Total (3)	**99,943**	**92,753**
Deduction from Tier (2) Supplementary Capital		
4- Unconsolidated financial institutions	27,451	1,556
5- significant minority investments	63,595	77,641
6- Investment in insurance entities	2,125	2,125
Total (4)	**93,171**	**81,322**
B) Total tier (2) of capital	6,772	11,431
Total Available Capital	**1,422,463**	**1,384,367**

Capital Adequacy Disclosure

Third: Capital Adequacy Ratios

At 31st of December 2010 the total Capital Adequacy ratio 14.22 % and Tier (1) 14.15 % (2009: The total of Capital Adequacy ratio was 15.21%, and Tire (1) 15.08% compared to the ratio required by regulatory authorities of 12%.

The group ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy through monitoring the internal limits which are supported by a special capital planning mechanism.

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 Central Bank of Kuwait circulated regulations to Islamic banks. The main Capital Adequacy information for the banking subsidiaries (Group) is as follows:

	2010		2009	
Banking Group	Tier (1)/ risk weighted assets	Total capital/ risk weighted assets	Tier (1)/ risk weighted assets	Total capital/ risk weighted assets
Kuwait Finance House – Malaysia	20.1%	21.3%	16.56%	17.63%
Kuwait Finance House – Bahrain	15.5%	15.9%	16.45%	17.71%
Kuwait Turk Participation – Turkey	17.8%	19.1%	14.91%	15.02%

Fourth: Risk weighted assets

1. Credit risk

The minimum required capital for credit risk exposures was KD 1,037,525 thousand as at 31 December 2010 (2009: KD 947,230) as detailed below:

					2010 (KD' 000)
Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	109,813	109,813	-	-
2	Claims on sovereigns	1,106,655	1,106,655	46,009	5,521
3	Claims on public sector entities	55,329	55,329	8,873	1,065
4	Claims on multilateral development banks	741	741	119	14
5	Claims on banks	989,899	989,899	278,295	33,395
6	Claims on corporates	3,230,562	2,500,759	1,940,941	232,913
7	Regulatory retail exposure	1,674,503	1,645,283	1,222,030	146,644
8	Qualifying residential housing financing facilities	219,884	218,751	61,391	7,367
9	Past due exposures	479,158	450,521	318,779	38,253
10	Inventory and commodities	487,105	487,105	483,836	58,060
11	Real estate investments	805,289	805,289	1,291,713	155,006
12	Investment and financing with customers	2,257,782	1,325,184	1,681,828	201,819
13	Sukuk and taskeek	68,989	68,989	32,714	3,926
14	Other exposures	1,592,575	1,592,575	1,279,512	153,542
Total		13,078,284	11,356,893	8,646,040	1,037,525

Capital Adequacy Disclosure

2009
(KD' 000)

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	48,487	48,487	-	-
2	Claims on sovereigns	962,163	962,163	47,329	9,879
3	Claims on public sector entities	75,097	75,097	12,941	1,553
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	822,304	822,304	226,387	22,966
6	Claims on corporates	3,312,903	2,752,304	2,086,189	250,343
7	Regulatory retail exposure	1,235,659	1,214,367	918,495	110,219
8	Qualifying residential housing financing facilities	178,316	177,264	48,739	5,849
9	Past due exposures	420,638	390,406	266,355	31,963
10	Inventory and commodities	330,904	330,904	322,407	38,689
11	Real estate investments	609,664	609,664	958,324	114,999
12	Investment and financing with customers	2,179,557	1,273,196	1,602,842	192,341
13	Sukuk and taskeek	58,436	58,436	28,436	7,012
14	Other exposures	1,706,001	1,704,913	1,375,140	161,417
Total		11,940,129	10,419,505	7,893,584	947,230

2. Market risk

Market Risk Weighted Exposure during the financial year 2010 amounted KD 600,642 thousand (2009: KD 447,208 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 72,077 thousand (2009: KD 53,665 thousand).

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 2010 amounted to KD 756,470 thousand (2009: 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 90,776 thousand (2009: 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 Bank's risk management is responsible for implementing and maintaining risk related procedures to ensure an independent control process and includes monitoring the risk of exposures against limits.

1. Risk Management 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. The report is designed to provide all information required to evaluate and determine the Group's risks.

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 & Reporting Systems

The risk management committee is responsible for managing and monitoring risk exposures. The risk management measures 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.

Capital Adequacy Disclosure

4. Types of Risks

Kuwait Finance House KSC (Closed) "The Bank" and its subsidiaries "The group" are exposed to various types of risks including credit, market or operational risks.

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

4.1 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 Framework

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

A) Business harmony among segments that are authorized to provide credit facilities (profit generating departments) and credit review 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) Follow 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 periodically 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.

Net Credit Exposures classified as Rated or Unrated (External Ratings)

2010
(KD' 000)

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	109,813	-	109,813
2	Claims on sovereigns	1,106,655	1,106,655	-
3	Claims on public sector entities	55,329	-	55,329
4	Claims on multilateral development banks	741	741	-
5	Claims on banks	989,899	639,023	350,876
6	Claims on corporates	2,500,759	460,188	2,040,571
7	Regulatory retail exposure	1,645,283	-	1,645,283
8	Qualifying residential housing financing facilities	218,751	-	218,751
9	Past due exposures	450,521	-	450,521
10	Inventory and commodities	487,105	-	487,105
11	Real estate investments	805,289	-	805,289
12	Investment and financing with customers	1,325,184	164,461	1,160,723
13	Sukuk and taskeek	68,989	68,989	-
14	Other exposures	1,592,575	-	1,592,575
Total		11,356,893	2,440,057	8,916,836

Capital Adequacy Disclosure

2009
(KD' 000)

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	48,487	-	48,487
2	Claims on sovereigns	962,163	962,163	-
3	Claims on public sector entities	75,097	1,817	73,280
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	822,304	438,750	383,554
6	Claims on corporates	2,752,304	537,264	2,215,040
7	Regulatory retail exposure	1,214,367	-	1,214,367
8	Qualifying residential housing financing facilities	177,264	-	177,264
9	Past due exposures	390,406	-	390,406
10	Inventory and commodities	330,904	-	330,904
11	Real estate investments	609,664	-	609,664
12	Investment and financing with customers	1,273,196	133,506	1,139,690
13	Sukuk and taskeek	58,436	58,436	-
14	Other exposures	1,704,913	-	1,704,913
Total		10,419,505	2,131,936	8,287,569

Total Credit Risk exposures classified as Self Financed or Financed from Investment Accounts:

2010
(KD' 000)

Ser.	**Credit risk exposures**	**Self financed**	**Finance form Investment Accounts**
1	Cash item	67,339	42,473
2	Claims on sovereigns	678,622	428,033
3	Claims on public sector entities	33,929	21,400
4	Claims on multilateral development banks	455	287
5	Claims on banks	578,007	364,571
6	Claims on corporates	1,411,846	890,506
7	Regulatory retail exposure	974,733	614,802
8	Qualifying residential housing financing facilities	134,837	85,047
9	Past due exposures	293,715	185,257
10	Inventory and commodities	298,702	188,403
11	Real estate investments	493,354	311,177
12	Investment and financing with customers	1,379,580	870,154
13	Sukuk and taskeek	42,306	26,684
14	Other exposures	968,538	610,894
Total		**7,355,963**	**4,639,688**

Capital Adequacy Disclosure

		2009 (KD' 000)	
Ser.	Credit risk exposures	Self financed	Finance form Investment Accounts
1	Cash item	28,586	19,901
2	Claims on sovereigns	567,252	394,911
3	Claims on public sector entities	44,274	30,823
4	Claims on multilateral development banks	-	-
5	Claims on banks	459,566	319,942
6	Claims on corporates	1,373,366	956,113
7	Regulatory retail exposure	712,562	496,073
8	Qualifying residential housing financing facilities	105,128	73,188
9	Past due exposures	247,440	172,264
10	Inventory and commodities	195,088	135,817
11	Real estate investments	358,772	249,770
12	Investment and financing with customers	1,279,672	890,885
13	Sukuk and taskeek	34,452	23,985
14	Other exposures	988,901	688,455
Total		6,395,059	4,452,127

Average Credit Risk exposures, average Self Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

				2010 (KD' 000)
Ser.	Credit risk exposures	Average Credit Risk Exposure	Self financed	Finance form Investment Accounts
1	Cash item	85,857	51,899	33,957
2	Claims on sovereigns	1,081,782	651,454	430,328
3	Claims on public sector entities	59,418	35,749	23,670
4	Claims on multilateral development banks	366	223	143
5	Claims on banks	910,676	489,921	323,381
6	Claims on corporates	3,123,761	1,331,427	878,710
7	Regulatory retail exposure	1,732,413	974,804	644,457
8	Qualifying residential housing financing facilities	197,274	118,920	78,354
9	Past due exposures	417,426	250,853	165,654
10	Inventory and commodities	237,434	142,728	94,706
11	Real estate investments	722,577	435,007	286,539
12	Investment and financing with customers	2,236,688	1,339,984	885,461
13	Sukuk and taskeek	17,609	10,789	6,821
14	Other exposures	1,857,315	1,109,549	733,612
Total		12,680,596	6,943,307	4,585,793

Capital Adequacy Disclosure

			2009 (KD' 000)	
Ser.	Credit risk exposures	Average Credit Risk Exposure	Self financed	Finance form Investment Accounts
1	Cash item	69,461	40,198	29,262
2	Claims on sovereigns	595,733	347,394	248,340
3	Claims on public sector entities	76,420	44,330	32,090
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	1,157,397	628,218	457,047
6	Claims on corporates	3,397,422	1,368,988	990,891
7	Regulatory retail exposure	1,198,653	680,484	492,115
8	Qualifying residential housing financing facilities	147,301	85,615	61,686
9	Past due exposures	496,586	286,218	207,648
10	Inventory and commodities	297,405	172,718	124,688
11	Real estate investments	551,291	319,301	230,526
12	Investment and financing with customers	2,062,510	1,190,569	860,587
13	Sukuk and taskeek	20,453	12,045	8,409
14	Other exposures	1,691,238	965,411	698,457
Total		11,761,870	6,141,489	4,441,746

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 credit ratings.

Capital Adequacy Disclosure

Geographical Distributions for Credit Risk Exposure

2010
(KD' 000)

Ser.	Description of credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	34,076	-	73,029	2,708	-	109,813
2	Claims on sovereigns	761,411	-	89,272	255,972	-	1,106,655
3	Claims on public sector entities	55,329	-	-	-	-	55,329
4	Claims on multilateral development banks	-	741	-	-	-	741
5	Claims on banks	511,474	32,965	291,438	150,778	3,244	989,899
6	Claims on corporates	1,303,319	307,281	1,021,301	598,376	285	3,230,562
7	Regulatory retail exposure	1,166,565	9,664	498,142	108	24	1,674,503
8	Qualifying residential housing financing facilities	39,299	2	180,583	-	-	219,884
9	Past due exposures	371,283	-	28,556	79,319	-	479,158
10	Inventory and commodities	220,485	-	149,457	117,163	-	487,105
11	Real estate investments	726,581	3,476	44,632	25,794	4,806	805,289
12	Investment and financing with customers	2,111,182	54,723	25,828	66,049	-	2,257,782
13	Sukuk and taskeek	40,566	19,942	2,874	5,607	-	68,989
14	Other exposures	1,285,717	76,412	131,046	98,721	679	1,592,575
Total		**8,627,287**	**505,206**	**2,536,158**	**1,400,595**	**9,038**	**13,078,284**

2009

(KD' 000)

Ser.	Description of credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	36,449	-	11,333	705	-	48,487
2	Claims on sovereigns	682,797	-	77,841	201,525	-	962,163
3	Claims on public sector entities	73,280	-	-	1,817	-	75,097
4	Claims on multilateral development banks	-	-	-	-	-	-
5	Claims on banks	546,498	6,761	172,421	86,904	9,720	822,304
6	Claims on corporates	1,444,779	292,613	1,065,127	462,857	47,527	3,312,903
7	Regulatory retail exposure	1,079,629	15,818	140,212	-	-	1,235,659
8	Qualifying residential housing financing facilities	29,389	4	148,923	-	-	178,316
9	Past due exposures	287,638	-	45,900	84,822	2,278	420,638
10	Inventory and commodities	96,700	-	113,646	120,558	-	330,904
11	Real estate investments	583,385	2,590	20,738	2,440	511	609,664
12	Investment and financing with customers	2,045,173	33,733	53,821	46,744	86	2,179,557
13	Sukuk and taskeek	34,418	21,152	2,866	-	-	58,436
14	Other exposures	1,445,428	48,987	157,916	48,740	4,930	1,706,001
Total		8,385,563	421,658	2,010,744	1,057,112	65,052	11,940,129

Capital Adequacy Disclosure

Maturities of total "Credit Risk" exposures

2010
(KD' 000)

Ser.	Description of Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	105,639	-	4,174	109,813
2	Claims on sovereigns	1,011,760	29,311	65,584	1,106,655
3	Claims on public sector entities	-	-	55,329	55,329
4	Claims on multilateral development banks	-	-	741	741
5	Claims on banks	826,692	60,855	102,352	989,899
6	Claims on corporates	993,419	694,317	1,542,826	3,230,562
7	Regulatory retail exposure	200,547	270,942	1,203,014	1,674,503
8	Qualifying residential housing financing facilities	923	9,743	209,218	219,884
9	Past due exposures	318,580	128,653	31,925	479,158
10	Inventory and commodities	572	8,166	478,367	487,105
11	Real estate investments	22,799	46,043	736,447	805,289
12	Investment and financing with customers	589,762	934,649	733,371	2,257,782
13	Sukuk and taskeek	68,989	-	-	68,989
14	Other exposures	105,729	128,812	1,358,034	1,592,575
Total		**4,245,411**	**2,311,491**	**6,521,382**	**13,078,284**

2009
(KD' 000)

Ser.	Description of Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	47,782	-	705	48,487
2	Claims on sovereigns	902,304	12,595	47,264	962,163
3	Claims on public sector entities	-	-	75,097	75,097
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	607,543	121,700	93,061	822,304
6	Claims on corporates	852,880	1,029,409	1,430,614	3,312,903
7	Regulatory retail exposure	131,352	158,626	945,681	1,235,659
8	Qualifying residential housing financing facilities	1,523	12,056	164,737	178,316
9	Past due exposures	338,779	35,959	45,900	420,638
10	Inventory and commodities	1,110	5,276	324,518	330,904
11	Real estate investments	8,196	64,689	536,779	609,664
12	Investment and financing with customers	516,270	888,666	774,621	2,179,557
13	Sukuk and taskeek	58,436	-	-	58,436
14	Other exposures	172,242	120,353	1,413,406	1,706,001
Total		3,638,417	2,449,329	5,852,383	11,940,129

Capital Adequacy Disclosure

Main sectors of total Credit Risk exposures

2010
(KD' 000)

Ser.	Description of credit risk exposures	Manufac-turing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	76,481	-	-	33,332	109,813
2	Claims on sovereigns	-	89,287	-	977,228	40,140	1,106,655
3	Claims on public sector entities	-	-	-	-	55,329	55,329
4	Claims on multilateral development banks	-	741	-	-	-	741
5	Claims on banks	135	947,956	-	-	41,808	989,899
6	Claims on corporates	1,218,657	377,022	624,055	7,780	1,003,048	3,230,562
7	Regulatory retail exposure	141,813	7,030	110,613	-	1,415,047	1,674,503
8	Qualifying residential housing financing facilities	8	-	10	-	219,866	219,884
9	Past due exposures	23,208	186,272	120,046	-	149,632	479,158
10	Inventory and commodities	5,408	-	571	-	481,126	487,105
11	Real estate investments	-	-	638,204	-	167,085	805,289
12	Investment and financing with customers	178,514	31,496	979,839	-	1,067,933	2,257,782
13	Sukuk and taskeek	-	34,019	-	-	34,970	68,989
14	Other exposures	23,928	410,645	559,422	-	598,580	1,592,575
Total		**1,591,671**	**2,160,949**	**3,032,760**	**985,008**	**5,307,896**	**13,078,284**

2009
(KD' 000)

Ser.	Description of credit risk exposures	Manufac-turing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	16,376	-	-	32,111	48,487
2	Claims on sovereigns	-	77,856	-	771,420	112,887	962,163
3	Claims on public sector entities	-	-	-	-	75,097	75,097
4	Claims on multilateral development banks	-	-	-	-	-	-
5	Claims on banks	-	774,186	-	-	48,118	822,304
6	Claims on corporates	1,143,622	704,350	580,921	7,934	876,076	3,312,903
7	Regulatory retail exposure	57,961	2,206	37,801	-	1,137,691	1,235,659
8	Qualifying residential housing financing facilities	29	-	17	-	178,270	178,316
9	Past due exposures	79,949	29,636	85,897	-	225,156	420,638
10	Inventory and commodities	3,047	-	1,110	-	326,747	330,904
11	Real estate investments	-	57,383	401,154	-	151,127	609,664
12	Investment and financing with customers	147,116	37,307	959,905	-	1,035,229	2,179,557
13	Sukuk and taskeek	-	29,518	-	-	28,918	58,436
14	Other exposures	31,869	509,067	619,172	-	545,893	1,706,001
Total		1,463,593	2,237,885	2,685,977	779,354	4,773,320	11,940,129

Capital Adequacy Disclosure

4.1.1 Irregular and past due credit facilities

1. Irregular Credit facilities (Impaired) consist the following categories:

- **Watchlist Category requiring specific provisions:** Includes regular clients but upon management's discretion, provisions have been taken to confront any possible future deterioration, in addition to credit facilities that are overdue for 90 days or less (inclusive). The specific provision percentage is determined based on each case and after a thorough study by the management and after deducting deferred, suspended profit and eligible collateral.

- **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 – 365 days (inclusive),a provision rate of minimum 50% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.

- **Bad Debts:** if debts are irregular for more than 365 days, a provision rate of 100% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.

2. 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.

At 31 December 2010, the Bank's non-performing finance facilities including receivables, leased assets and non cash facilities amounted KD 910,855 (2009: KD 696,763 thousand) , KD 871,868 thousand (2009: KD 642,071 thousand) after excluding deferred revenue and suspended profit and KD 687,153 thousand (2009: KD 523,749 thousand) after excluding eligible collaterals in accordance with CBK regulations for specific provision calculation.

As at 31 December 2010, Group's provisions amounted KD 552,770 thousand (2009: KD 408,667 thousand), including general provisions that amounted KD 160,171 thousand (2009: KD 190,129 thousand).

Irregular and past due financing facilities exposures in accordance with standard portfolios

2010
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Claims on banks	11,094	9,654	1,440	-	-
2	Claims on corporate	692,199	283,963	408,236	6,785	304,085
3	Regulatory retail exposure	99,181	45,481	53,700	-	5,741
4	Qualifying residential housing financing Facilities	5,173	900	4,273	-	10,162
5	Real estate investments	-	-	-	-	-
6	Investment and financing with customers	72,376	23,236	49,140	-	195,162
7	Other Exposures	30,832	29,365	1,467	-	-
Total		**910,855**	**392,599**	**518,256**	**6,785**	**515,150**

2009
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Claims on banks	2,135	627	1,508	-	1,941
2	Claims on corporate	478,576	156,963	321,613	15,993	31,557
3	Regulatory retail exposure	162,800	38,074	124,726	4,429	373,575
4	Qualifying residential housing financing Facilities	-	-	-	-	-
5	Real estate investments	-	-	-	-	-
6	Investment and financing with customers	10,050	2,766	7,284	-	147,452
7	Other Exposures	43,202	20,108	23,094	-	2,516
Total		696,763	218,538	478,225	20,422	557,041

Capital Adequacy Disclosure

Irregular and past due financing facilities exposures based on geographical distribution

2010
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	MENA	649,672	278,130	371,542	6,785	371,603
2	North America	10,436	4,099	6,337	-	9,311
3	Europe	95,633	42,793	52,840	-	67,155
4	Asia	155,114	67,577	87,537	-	67,006
5	Others	-	-	-	-	75
Total		**910,855**	**392,599**	**518,256**	**6.785**	**515,150**

2009
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	MENA	512,038	173,122	338,916	1,447	327,214
2	North America	13,664	4,572	9,092	-	7,820
3	Europe	102,843	27,049	75,794	18,975	160,609
4	Asia	66,513	12,287	54,226	-	59,894
5	Others	1,705	1,508	197	-	1,504
Total		696,763	218,538	478,225	20,422	557,041

Irregular and past due financing facilities exposures according to industrial sectors

2010
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	86,287	47,180	39,107	-	124,769
2	Banks and financial institutions	328,872	142,525	186,347	-	51,150
3	Constructions & real estate	201,253	76,386	124,867	-	79,648
4	Others	294,443	126,508	167,935	6,785	259,583
Total		**910,855**	**392,599**	**518,256**	**6,785**	**515,150**

2009
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	95,372	32,387	62,985	9,989	105,932
2	Banks and financial institutions	186,824	57,992	128,832	-	14,226
3	Constructions & real estate	136,153	68,551	67,602	872	89,769
4	Others	278,414	59,608	218,806	9,561	347,114
Total		696,763	218,538	478,225	20,422	557,041

Capital Adequacy Disclosure

General provision

Ser.	Description of credit risk exposures	2010 (KD' 000)	2009 (KD' 000)
1	Claims on banks	**575**	541
2	Claims on corporates	**116,043**	99,635
3	Regulatory retail exposures	**18,226**	23,581
4	Real estate investments	**1,541**	2,518
5	Investment and financing with customers	**23,786**	63,854
Total		**160,171**	190,129

4.1.2 Applicable Risk Mitigation Methods

Kuwait Finance House K.S.C. (the Bank) 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 Central Bank of Kuwait regulations in relation to Basel II standard.

The Bank 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.

Acceptable Risk Mitigation Methods

2010 (KD' 000)

Ser.	Risk mitigation methods	Total risk mitigation methods	Net risk mitigation methods after haircuts
1	Cash Collaterals	172,261	172,261
2	Bank guarantees	822	822
3	Shares	795,964	627,153
4	Leased assets (commercial)	1,497,091	748,546
5	Real estate and land	455,218	172,609
Total		**2,921,356**	**1,721,391**

2009 (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

Capital Adequacy Disclosure

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure

2010
(KD' 000)

Ser.	Description of Credit Risk Exposures	Total credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	109,813	-	-
2	Claims on sovereigns	1,106,655	-	-
3	Claims on public sector entities	55,329	-	-
4	Claims on multilateral development banks	741	-	-
5	Claims on banks	989,899	-	-
6	Claims on corporates	3,230,562	729,670	134
7	Regulatory retail exposures	1,674,503	29,220	-
8	Qualifying residential housing financing facilities	219,884	1,133	-
9	Past due exposures	479,158	28,638	-
10	Inventory and commodities	487,105	-	-
11	Real estate investment	805,289	-	-
12	Investment and financing with customers	2,257,782	931,908	688
13	Sukuk and taskeek	68,989	-	-
14	Other exposures	1,592,575	-	-
Total		**13,078,284**	**1,720,569**	**822**

2009
(KD' 000)

Ser.	Description of Credit Risk Exposures	Total credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	48,487	-	-
2	Claims on sovereigns	962,163	-	-
3	Claims on public sector entities	75,097	-	-
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	822,304	-	-
6	Claims on corporates	3,312,903	560,598	-
7	Regulatory retail exposures	1,235,659	21,292	-
8	Qualifying residential housing financing facilities	178,316	1,052	-
9	Past due exposures	420,638	30,232	-
10	Inventory and commodities	330,904	-	-
11	Real estate investment	609,664	-	-
12	Investment and financing with customers	2,179,557	906,362	4,491
13	Sukuk and taskeek	58,436	-	-
14	Other exposures	1,706,001	1,088	-
Total		11,940,129	1,520,624	4,491

4.2 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 Central Bank of Kuwait Basel II regulations, market risks comprise the risks of exchange rates, equity risks, and commodity positions risks.

Market risks that the Bank 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.

Capital Adequacy Disclosure

4.2.1 Market Risk Frameworks

Kuwait Finance House (The Bank) is mainly exposed to exchange rate risks on 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 Department 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.

4.2.2 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.

4.3 Operational Risks

Operational risks are defined as the risk of loss 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 Shari’a requirements.

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

4.3.1 Operational Risk Frameworks

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

1- 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.

2- Submit a “qualitative and quantitative” report to KFH top management on risks and control environment at KFH departments.

3- 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

The Bank 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 the Bank 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 the Bank as a Mudarib and investment account holders on proportionate basis for each type of these accounts and the elapsed investment period.

The Bank 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 Shari’a principles.

Seventh: Shari’a Regulations

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

Certain Non- Shari’a compliant funds are realized from dealing with conventional banks and sale of un-owned in Murabahas. Entries, agreements, products and advertising material...etc are reviewed by Shari’a 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 Quran as per Shari’a committee opinion.

Shari’a Control Department, represented by Shari’a Audit Unit, conducts audit on the Bank 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 2010 amounted to KD 11,874 thousand (2009: KD 11,349 thousand) which will be paid in the year of 2011.

Audit Report & Consolidated Financial Statements

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 2010 and the consolidated statement of income, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about 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 Group'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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Group'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 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the 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, or of the articles of association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of 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 2010 and based on the Bank's Shareea'a Board report issued for the year ended 31 December 2010, we are not aware of any violation of the fatwas and ruling of the Bank's Shareea'a Board.

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

JASSIM AHMAD AL-FAHAD
Licence NO. 53 A
DELOITTE and TOUCHE
AL-FAHAD, AL WAZZAN & CO.

10 January 2011
Kuwait

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2010

	Note	2010 KD 000's	2009 KD 000's	2010 USD 000's	2009 USD 000's
INCOME					
Financing income		517,573	528,411	1,844,522	1,883,147
Investment income	3	92,287	111,613	328,892	397,766
Fee and commission income		65,211	63,406	232,398	225,966
Net gain (loss) of foreign currencies		3,111	(2,250)	11,087	(8,019)
Other income		58,117	65,523	207,117	233,510
		736,299	766,703	2,624,016	2,732,370
EXPENSES					
Staff costs		114,131	111,893	406,739	398,763
General and administrative expenses		91,306	86,757	325,396	309,184
Finance costs		44,871	54,543	159,911	194,380
Depreciation		48,186	40,031	171,725	142,662
Impairment	4	198,633	203,885	707,887	726,604
		497,127	497,109	1,771,658	1,771,593
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		239,172	269,594	852,358	960,777
Distribution to depositors		162,866	192,584	580,421	686,329
PROFIT AFTER DISTRIBUTION		76,306	77,010	271,937	274,448
Contribution to Kuwait Foundation for the Advancement of Sciences		1,105	1,239	3,938	4,416
National Labor Support tax		2,582	3,394	9,202	12,096
Zakat (based on Zakat Law No. 46/2006)		679	397	2,420	1,415
Directors' fees	21	160	160	570	570
PROFIT FOR THE YEAR		71,780	71,820	255,807	255,951
Attributable to:					
Equityholders of the Bank		105,983	118,741	377,700	423,168
Non-controlling interests		(34,203)	(46,921)	(121,893)	(167,217)
		71,780	71,820	255,807	255,951
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	5	43.1 fils	48.2 fils	15.4 cents	17.2 cents

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Note	2010 KD 000's	2009 KD 000's	2010 USD 000's	2009 USD 000's
Profit before distribution to depositors		239,172	269,594	852,358	960,777
Other comprehensive income (loss)					
Change in fair value of available for sale investments	17	(32,447)	(88,644)	(115,634)	(315,909)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	17	2,973	(2,444)	10,595	(8,710)
Loss realised on available for sale investments during the year	17	6,069	672	21,629	2,395
Impairment losses transferred to the consolidated statement of income	17	16,930	49,210	60,335	175,374
Share of other comprehensive loss of associates	17	(2,927)	(3,785)	(10,431)	(13,489)
Exchange differences on translation of foreign operations	18	2,967	15,079	10,574	53,738
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		(6,435)	(29,912)	(22,932)	(106,601)
Total comprehensive income before estimated distribution to depositors		232,737	239,682	829,426	854,176

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Note	2010 KD 000's	2009 KD 000's	2010 USD 000's	2009 USD 000's
ASSETS					
Cash and balances with banks and financial institutions	6	447,585	444,943	1,595,100	1,585,684
Short-term murabahas		1,597,372	1,257,573	5,692,701	4,481,728
Receivables	7	5,545,915	5,090,398	19,764,487	18,141,119
Trading properties		221,226	126,386	788,403	450,413
Leased assets	8	1,272,703	1,288,066	4,535,649	4,590,399
Investments	9	1,183,050	1,042,026	4,216,144	3,713,564
Investment in associates	10	339,307	410,838	1,209,220	1,464,141
Investment properties	11	561,377	506,464	2,000,631	1,804,932
Other assets	12	629,293	522,394	2,242,670	1,861,703
Property and equipment	13	750,671	601,606	2,675,235	2,143,999
TOTAL ASSETS		12,548,499	11,290,694	44,720,240	40,237,682
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY					
LIABILITIES					
Due to banks and financial institutions	14	2,211,580	1,460,925	7,881,611	5,206,433
Depositors' accounts	15	7,649,082	7,261,827	27,259,736	25,879,640
Other liabilities	16	602,135	563,451	2,145,884	2,008,020
TOTAL LIABILITIES		10,462,797	9,286,203	37,287,231	33,094,093
DEFERRED REVENUE		515,874	464,602	1,838,468	1,655,745
FAIR VALUE RESERVE	17	(42,999)	(33,597)	(153,239)	(119,733)
FOREIGN EXCHANGE TRANSLATION RESERVE	18	10,498	7,531	37,413	26,839
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK					
Share capital	19	248,985	230,542	887,331	821,604
Share premium		464,766	464,766	1,656,329	1,656,329
Proposed issue of bonus shares	21	19,919	18,443	70,987	65,727
Treasury shares	19	(26,722)	(36,662)	(95,232)	(130,656)
Reserves	20	534,078	507,871	1,903,343	1,809,947
		1,241,026	1,184,960	4,422,758	4,222,951
Proposed cash dividend	21	49,304	56,857	175,709	202,627
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		1,290,330	1,241,817	4,598,467	4,425,578
Non-controlling interests		311,999	324,138	1,111,900	1,155,160
TOTAL EQUITY		1,602,329	1,565,955	5,710,367	5,580,738
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		12,548,499	11,290,694	44,720,240	40,237,682

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equityholders of the Bank													Non-controlling interests	Total equity
				Reserves											
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Statutory reserve	Voluntary reserve	Employee share options reserve	Treasury shares reserve	Sub total	Profit for the year	Sub total	Proposed cash dividend	Sub total		
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
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 paid	-	-	-	-	-	(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
Issue of bonus shares	18,443	-	(18,443)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(11,349)	-	-	(11,349)	-	(11,349)	-	(11,349)	-	(11,349)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	-	(56,857)
Cancellation of share option	-	-	-	-	-	-	2	-	2	-	2	-	2	-	2
Profit for the year	-	-	-	-	-	-	-	-	-	105,983	105,983	-	105,983	(34,203)	71,780
Distribution of profit:															
Proposed issue of bonus shares	-	-	19,919	-	-	-	-	-	-	(19,919)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(49,304)	(49,304)	49,304	-	-	-
Transfer to statutory reserve	-	-	-	-	11,051	-	-	-	11,051	(11,051)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	25,709	-	-	25,709	(25,709)	-	-	-	-	-
Net movement in treasury shares	-	-	-	9,940	-	-	-	-	-	-	9,940	-	9,940	-	9,940
Profit on sale of treasury shares	-	-	-	-	-	-	-	794	794	-	794	-	794	-	794
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	22,064	22,064
At 31 December 2010	248,985	464,766	19,919	(26,722)	254,288	270,359	4,239	5,192	534,078	-	1,241,026	49,304	1,290,330	311,999	1,602,329

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Note	2010 KD 000's	2009 KD 000's	2010 USD 000's	2009 USD 000's
OPERATING ACTIVITIES					
Profit for the year		71,780	71,820	255,807	255,951
Adjustment for:					
Depreciation		48,186	40,031	171,725	142,662
Impairment		198,633	203,885	707,887	726,604
Dividend income		(9,319)	(18,260)	(33,211)	(65,075)
Gain on part sale of associates and subsidiaries		(87)	(34,821)	(310)	(124,095)
Gain on sale of investments		(1,632)	(14,623)	(5,816)	(52,113)
Sukook income		(9,004)	(2,979)	(32,088)	(10,617)
Gain on cancellation of aircraft contract		(19,694)	-	(70,185)	-
Gain on sale of exploration assets		(24,516)	-	(87,370)	-
Share of results of associates		57,492	28,724	204,890	102,366
Other investment income		(19,385)	(21,284)	(69,084)	(75,852)
		292,454	252,493	1,042,245	899,831
Changes in operating assets and liabilities					
(Increase) decrease in operating assets:					
Receivables		(586,985)	(442,723)	(2,091,892)	(1,577,773)
Trading properties		(146,567)	(7,451)	(522,334)	(26,554)
Leased assets		(5,240)	(113,123)	(18,674)	(403,147)
Other assets		(94,341)	(61,442)	(336,212)	(218,967)
Increase (decrease) in operating liabilities:					
Due to banks and financial institutions		750,655	(121,670)	2,675,178	(433,607)
Depositors' accounts		387,254	650,271	1,380,093	2,317,431
Other liabilities		55,879	183,487	199,141	653,909
Net cash from operating activities		653,109	339,842	2,327,545	1,211,123
INVESTING ACTIVITIES					
Purchase of investments, net		(147,327)	(73,613)	(525,043)	(262,341)
Purchase of investment properties, net		(44,954)	(56,614)	(160,207)	(201,761)
Purchase of property and equipment, net		(203,943)	(221,820)	(726,810)	(790,520)
Purchase of investments in associates, net		(2,023)	(16,055)	(7,210)	(57,217)
Sukook income		9,004	2,979	32,088	10,617
Cash proceeds from cancellation of aircraft contracts		20,067	-	71,515	-
Proceeds from sale of exploration assets		34,911	-	124,416	-
Dividend income received		11,848	20,996	42,224	74,825
Net cash used in investing activities		(322,417)	(344,127)	(1,149,027)	(1,226,397)
FINANCING ACTIVITIES					
Cash dividends paid		(56,857)	(82,124)	(202,627)	(292,673)
Cash received on cancellation of share options		2	-	7	-
Payment of Zakat		(11,349)	(9,464)	(40,445)	(33,728)
Net movement in treasury shares		10,734	(25,619)	38,254	(91,300)
Net cash used in financing activities		(57,470)	(117,207)	(204,811)	(417,701)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		273,222	(121,492)	973,707	(432,975)
Cash and cash equivalents at 1 January		1,246,693	1,368,185	4,442,954	4,875,927
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	1,519,915	1,246,693	5,416,661	4,442,952

The attached notes 1 to 37 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements at 31 December 2010

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Bank's Board of Directors on 10 January 2011 and are subject to approval by the Central Bank of Kuwait. The general assembly of the equityholders 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 22. 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'a, as approved by the Bank's Fatwa and Shareea'a Supervisory Board.

The Bank operates through 52 local branches (2009: 48 branches) and employed 2,153 employees as of 31 December 2010 (2009: 2,109) of which 1,327 (2009: 1,287) are Kuwaiti nationals representing 62% (2009: 61%) 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, profit rate swaps, and forward foreign exchange contracts.

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

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010;
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009;
- Improvements to other IFRSs.

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010.

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

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will these give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

IFRIC 17 Distributions of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to IFRSs

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

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the executive officer. As the Group's chief operating decision maker reviews segment assets and liabilities; the Group has continued to disclose this information in Note 26.

IAS 7 Statement of Cash Flows: This accounting standard states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

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

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its financial position or performance.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to IFRSs (issued in May 2010)

The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

IFRS 3 Business Combinations

IFRS 7 Financial Instruments: Disclosures

IAS 1 Presentation of Financial Statements

IAS 27 Consolidated and Separate Financial Statements

IFRIC 13 Customer Loyalty Programmes

Notes to the Consolidated Financial Statements at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2010 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 22. All significant intra-group balances, transactions and unrealized gains or losses resulting from intra group transactions and dividends are eliminated in full.

Since the subsidiaries' financial statements used in the consolidation are drawn up to different reporting dates, where practicable, 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. Where practicable, 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 the Group's accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in foreign exchange translation reserve
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated statement of income
- Reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

i) Financing income is income from murabaha, istisna'a and wakala investments and is using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.

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, balances with Central Bank of Kuwait, tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions, short-term international murabaha contracts and exchange of deposits maturing within three months of contract date.

Short-term murabahas

Short-term murabahas are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality 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, international 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.

International murabahas are financial assets originated by the Group and represent commodity murabaha transactions with high credit quality banks and financial institutions. These are stated at amortized cost.

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.

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 in the consolidated statement of 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 statement of income 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.

Available for sale 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 the consolidated statement of income, or determined to be impaired, at which time the cumulative change in fair value reserve is recognised in the consolidated statement of income in impairment of investment and removed from the fair value reserve.

Investment in associates

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

The share of profit of an associate is included in investment income (Note 3). This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group or to a date not earlier than three months of the Bank reporting date using consistent accounting policies. Where practicable, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the impairment in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in consolidated statement of income.

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 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 statement of income 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 the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives that range from 20 - 25 years.

Properties under construction

Properties under construction or development for future use as an investment property are classified as investment properties and 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 the asset.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Precious metals

Precious metals are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs necessary to make the sale. These are classified as other assets (Note 12).

Accounts receivable

Accounts receivable, that primarily relate to subsidiaries in businesses other than financing, are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. These are included in other assets (Note 12).

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 statement of income 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)
- Furniture, fixtures and equipment 3-5 years
- Motor vehicles 3 years

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.

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 asset's original effective profit rate.

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

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 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 statement of income is removed from fair value reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of sukook investments classified as available for sale, 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 statement of income. 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 statement of income, the impairment loss is reversed through the consolidated statement of income.

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,

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of income. 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 statement of income 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 of statement.

Currency swaps, profit rate swaps and forward contracts

The Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity 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, profit rate swaps, forward foreign exchange and forward commodity 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, profit rate swaps, forward foreign exchange and forward commodity contracts are taken directly to the consolidated statement of income, 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, profit rate swaps, forward foreign exchange and forward commodity 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 statement of income.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income 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 statement of income. 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.

Fair value measurements related to items recorded at fair value 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.

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.

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 statement of income.

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.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The Bank calculates the contribution to KFAS at 1% in accordance with the calculation based on the Foundation's Board of Directors resolution.

National Labour Support Tax (NLST)

The Bank calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year. Cash dividends from listed companies which are subjected to NLST are deducted from the profit for the year to determine the taxable profit.

Notes to the Consolidated Financial Statements at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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'a 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 statement of income.

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.

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/loss from foreign currencies in the consolidated statement of income.

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 entities

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 statements of income 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 foreign exchange translation reserve relating to that particular foreign operation is recognized in the consolidated statement of income.

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 statement of income.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 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 operation and translated at the closing rate.

Accounts payable

Liabilities are recognized for amounts to be paid in the future for goods whether or not billed to the Group.

Accrued expenses

Liabilities are recognized for amounts to be paid in the future for services received whether or not billed to the Group.

Due from/to customers for contract work

Due from/to customers of contracting subsidiaries for uncompleted contracts represents costs, which comprises direct materials, direct labour and an appropriate allocation of overheads including depreciation provided on property, furniture and equipment, on a consistent basis, plus attributable profit to the extent that it is reasonably certain less provision for contingencies and any losses incurred or foreseen in bringing contracts to completion, and less any amounts received or receivable as progress billings.

Other provisions and reserves

Other provisions and reserves are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any reserve provision is presented in the consolidated statement of income net of any reimbursement.

Reserves for maintenance

Provisions for maintenance -related costs are recognised when the service provided. Initial recognition is based on historical experience. The initial estimate of maintenance -related costs is revised annually.

Employees' end of service benefits

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

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.

Classification of real estate

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

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

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 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 statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of 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 Translation

The United States dollar amounts in consolidated income statement, statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flow represent supplimentary information and have been translated at a rate of KD 0.28060 per USD which represents the mid-market rate at 31 December 2010.

Notes to the Consolidated Financial Statements at 31 December 2010

3 INVESTMENT INCOME

	2010 KD 000's	2009 KD 000's
Gain on sale of real estate	51,200	29,370
Rental income	14,942	19,000
Dividend income	9,319	18,260
Gain (loss) on part sale of associates	87	(72)
Gain on part sale of subsidiaries	-	34,893
Gain on sale of investments	1,632	14,623
Share of loss of associates (Note 10)	(57,492)	(28,724)
Sukook income	9,004	2,979
Gain on cancellation of aircraft contract	19,694	-
Gain on sale of exploration assets	24,516	-
Other investment income	19,385	21,284
	92,287	111,613

4 IMPAIRMENT

	2010 KD 000's	2009 KD 000's
Impairment receivables:		
International murabahas	24,604	33,955
Local murabahas and wakala	95,875	58,040
Istisna'a and other receivables	(6,958)	3,644
	113,521	95,639
Impairment of leased assets (Note 8)	20,603	6,882
Impairment of investments	24,446	53,130
Impairment of associates	8,847	14,014
Impairment of (reversal of) investment properties (Note 11)	4,629	(172)
Impairment of property and equipment (Note 13)	9,465	9,630
Impairment of goodwill	6,342	15,439
Impairment of other assets	10,780	9,323
	198,633	203,885

5 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK

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

	2010	2009
Profit for the year attributable to the equityholders of the Bank (KD thousands)	105,983	118,741
Weighted average number of shares outstanding during the year (thousand shares)	2,459,415	2,465,582
Basic and diluted earnings per share	43.1 fils	48.2 fils

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 18 March 2010 (see note 21).

Notes to the Consolidated Financial Statements at 31 December 2010

6 CASH AND CASH EQUIVALENTS

	2010 KD 000's	2009 KD 000's
Cash	58,125	48,224
Balances with Central Banks	153,048	215,184
Balances with banks and financial institutions - current accounts	223,860	180,071
Balances with banks and financial institutions - exchange of deposits	12,552	1,464
Cash and balances with banks and financial institutions	447,585	444,943
Short-term murabaha - maturing within 3 months of contract date	802,268	584,688
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	270,062	217,062
Cash and cash equivalents	1,519,915	1,246,693

The Group exchanges deposits with reputable 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:

	2010 KD 000's	2009 KD 000's
Due from banks and financial institutions	222,726	161,396
Due to banks and financial institutions	(210,174)	(161,126)
	12,552	270

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

	2010 KD 000's	2009 KD 000's
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	12,552	1,464
In liabilities:		
Due to banks and financial institutions – exchange of deposits	-	(1,194)
	12,552	270

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, wakala and istisna'a balances and are stated net of impairment as follows:

	2010 KD 000's	2009 KD 000's
International commodity murabahas	1,503,381	1,221,442
Local murabahas and wakala	4,343,583	4,008,053
Istisna'a and other receivables	184,806	229,031
	6,031,770	5,458,526
Less: impairment	(485,855)	(368,128)
	5,545,915	5,090,398

Notes to the Consolidated Financial Statements at 31 December 2010

7 RECEIVABLES (continued)

The distribution of receivables is as follows:

	2010 KD 000's	2009 KD 000's
Industry sector		
Trading and manufacturing	1,201,153	1,014,802
Banks and financial institutions	1,847,217	1,888,090
Construction and real estate	1,667,775	1,591,305
Other	1,315,625	964,329
	6,031,770	5,458,526
Less: impairment	(485,855)	(368,128)
	5,545,915	5,090,398

	2010 KD 000's	2009 KD 000's
Geographic region		
Middle East	3,925,831	3,949,951
Western Europe	122,800	71,146
Other	1,983,139	1,437,429
	6,031,770	5,458,526
Less: impairment	(485,855)	(368,128)
	5,545,915	5,090,398

Impairment of receivables from customers for finance facilities is analysed as follows:

	Specific		General		Total	
	2010 KD 000's	2009 KD 000's	2010 KD 000's	2009 KD 000's	2010 KD 000's	2009 KD 000's
Balance at beginning of year	203,305	164,098	164,823	135,009	368,128	299,107
Provided (reversed) during the year	144,655	59,122	(31,134)	36,517	113,521	95,639
Amounts written off; net of foreign currency translation	6,052	(19,915)	(1,846)	(6,703)	4,206	(26,618)
Balance at end of year	354,012	203,305	131,843	164,823	485,855	368,128
International murabahas	91,118	38,259	14,317	21,920	105,435	60,179
Local murabahas and wakalas	238,262	143,297	114,528	138,922	352,790	282,219
Istisna'a and other receivables	24,632	21,749	2,998	3,981	27,630	25,730
	354,012	203,305	131,843	164,823	485,855	368,128

Notes to the Consolidated Financial Statements at 31 December 2010

At 31 December 2010, the Bank's non-performing finance facilities including receivables, leased assets and non cash facilities amounted to KD 910,855 thousand (2009: KD 696,763 thousand), KD 871,868 thousand (2009: KD 642,071 thousand) after excluding deferred revenue and suspended profit and KD 687,153 thousand (2009: KD 523,749 thousand) after excluding eligible collateral in accordance with CBK regulations for specific provision calculation.

	Pre-invasion KD 000's	Post liberation KD 000's	Total KD 000's
2010			
Finance facilities	**6,253**	**904,602**	**910,855**
Impairment	**6,253**	**386,346**	**392,599**
2009			
Finance facilities	6,275	690,488	696,763
Impairment	6,275	212,644	218,919

The provision charged (released) for the year on non-cash facilities is KD 878 thousand [2009: KD 16 thousand]. The available provision on non-cash facilities of KD 11,340 thousand (2009: KD 10,462 thousand) is included under other liabilities (Note 16).

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.

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:

	2010 KD 000's	2009 KD 000's
Gross investment	**1,359,875**	1,350,772
Less: unearned revenue	**(31,597)**	(28,710)
impairment	**(55,575)**	(33,996)
	1,272,703	1,288,066

Impairment on leased assets is as follows:

	Specific		General		Total	
	2010 KD 000's	2009 KD 000's	**2010 KD 000's**	2009 KD 000's	**2010 KD 000's**	2009 KD 000's
Balance at beginning of year	**15,233**	9,625	**18,763**	18,049	**33,996**	27,674
Provided during the year	**18,550**	6,162	**2,053**	720	**20,603**	6,882
Write off; net of foreign currency translation	**733**	(554)	**243**	(6)	**976**	(560)
Balance at end of year	**34,516**	15,233	**21,059**	18,763	**55,575**	33,996

Notes to the Consolidated Financial Statements at 31 December 2010

8 LEASED ASSETS (continued)

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

	2010 KD 000's	2009 KD 000's
Within one year	882,900	771,155
One to five year	320,209	324,389
After five years	156,766	255,228
	1,359,875	1,350,772

The unguaranteed residual value of the leased assets at 31 December 2010 is estimated at KD 48,720 thousand (2009: KD 57,588 thousand).

9 INVESTMENTS

	2010 KD 000's	2009 KD 000's
Investments comprise:		
Quoted equity investments	61,309	79,727
Unquoted equity investments	304,287	301,133
Managed portfolios (mainly comprising quoted equity investments)	252,057	230,402
Mutual funds (unquoted)	184,053	189,512
Sukook	381,344	241,252
	1,183,050	1,042,026
Investments carried at fair value	807,049	739,088
Investments carried at cost less impairment	376,001	302,938
	1,183,050	1,042,026

Included in managed portfolios is an amount of KD 35,425 thousand (2009: KD 28,372 thousand) which represents the Group's investment in 30,533 thousand shares (2009: 25,723 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.23% of the total issued share capital at 31 December 2010 (2009: 1.12%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under 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.

Notes to the Consolidated Financial Statements at 31 December 2010

31 December 2010	Level 1 KD 000's	Level 2 KD 000's	Level 3 KD 000's	Total KD 000's
Quoted equity investments	61,309	-	-	61,309
Unquoted equity investments	-	-	54,455	54,455
Managed portfolios (mainly comprising quoted equity investments)	216,358	4,356	18,811	239,525
Mutual funds	-	18,172	116,656	134,828
Sukook	316,932	-	-	316,932
	594,599	22,528	189,922	807,049

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	-	18,921	170,591	189,512
Sukook	241,242	-	-	241,242
	537,627	18,921	182,540	739,088

The valuation technique or pricing models are used primarily for unquoted equities.

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 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		Country of registration	Principal activities	Financial statements reporting date
	2010	2009			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	27	27	Kuwait	Islamic Takaful Insurance	30 September 2010
Gulf Investment House K.S.C. (Closed)	20	20	Kuwait	Islamic investments	30 September 2010
Sharajah Islamic Bank P.J.S.C.	20	20	United Arab Emirates	Islamic banking services	30 September 2010
First Investment Company K.S.C. (Closed)	9	9	Kuwait	Islamic investments	30 September 2010
Indirect investments in associates held through consolidated subsidiaries:					
Sokouk Real Estate Development Company K.S.C. (Closed)	49	49	Kuwait	Real estate development	30 September 2010
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	25	30	Kuwait	Real estate projects management	30 September 2010
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2010
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	16	Kuwait	Leasing and Islamic investment	31 March 2010

Notes to the Consolidated Financial Statements at 31 December 2010

10 INVESTMENT IN ASSOCIATES (continued)

The Group's investment in First Investment Company and A'ayan Leasing and Investment have been classified as investment 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.

	2010 KD 000's	2009 KD 000's
Share of associates' assets and liabilities:		
Assets	792,023	832,887
Liabilities	(502,288)	(481,608)
Net assets	289,735	351,279

	2010 KD 000's	2009 KD 000's
Share of associates' revenue and results:		
Revenue	24,131	97,188
Results	(57,492)	(28,724)
Capital Commitments	29,678	26,705

Investments in associates with a carrying amount of KD 157,241 thousand (2009: KD 215,405 thousand) have a market value of KD 74,811 thousand at 31 December 2010 (2009: KD 83,507 thousand) based on published quotes. The remaining associates with a carrying value of KD 182,066 thousand (2009: KD 195,433 thousand) are unquoted companies and reliable fair value information is not readily available. The carrying amount of investments in associates includes goodwill of KD 49,572 thousand (2009: KD 59,559 thousand).

11 INVESTMENT PROPERTIES

	2010 KD 000's	2009 KD 000's
At 1 January	506,464	279,574
Arising on consolidation	-	17,202
Purchases	128,608	98,656
Transfer from property and equipment (Note 13)	825	155,371
Disposals	(67,943)	(42,043)
Depreciation charge for the year	(1,948)	(2,468)
Impairment losses released	(4,629)	172
At 31 December	561,377	506,464

	2010 KD 000's	2009 KD 000's
Developed properties	375,529	320,086
Properties under construction	190,477	188,192
	566,006	508,278
Less: impairment in value	(4,629)	(1,814)
	561,377	506,464

Investment properties with carrying value of KD 61,162 thousand (2009: KD 38,464 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 60,062 thousand (2009: KD 37,287 thousand).

The fair value of investment properties at the financial position date is KD 610,870 thousand (2009: KD 575,075 thousand).

Notes to the Consolidated Financial Statements at 31 December 2010

12 OTHER ASSETS

	2010 KD 000's	2009 KD 000's
Accounts receivable	194,292	187,445
Precious metal inventory	51,620	25,698
Goodwill	44,163	54,841
Intangible asset	40,468	37,439
Advances in investment purchases	33,580	17,883
Other assets	265,170	199,088
	629,293	522,394

13 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	2010 Total KD 000's	2009 Total KD 000's
Cost								
At 1 January 2010	22,790	74,905	488,071	132,228	57,192	29,992	805,178	718,479
Arising on consolidation	-	-	-	-	-	-	-	92,475
Additions	(2)	15,001	184,053	22,940	13,206	8,115	243,313	271,720
Disposals	(840)	(2,651)	(12,742)	(18,894)	(32,411)	(10,188)	(77,726)	(60,780)
Transfer to investment properties (Note 11)	-	-	-	-	-	(825)	(825)	(216,716)
At 31 December 2010	21,948	87,255	659,382	136,274	37,987	27,094	969,940	805,178
Accumulated depreciation								
At 1 January 2010	-	36,928	66,048	76,778	23,818	-	203,572	127,140
Arising on consolidation	-	-	-	-	-	-	-	40,119
Depreciation charge for the year	-	2,644	22,488	14,087	7,019	-	46,238	37,563
Relating to disposals	-	(2,810)	(10,336)	(6,267)	(20,593)	-	(40,006)	(10,880)
Impairment loss charged for the year	-	-	9,465	-	-	-	9,465	9,630
At 31 December 2010	-	36,762	87,665	84,598	10,244	-	219,269	203,572
Net carrying amount								
At 31 December 2010	21,948	50,493	571,717	51,676	27,743	27,094	750,671	601,606
At 31 December 2009	22,790	37,977	422,023	55,450	33,374	29,992	601,606	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 equityholders 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 equityholders of the Bank.

One of the subsidiaries holds a fleet of aircraft with carrying value of KD 432,649 thousand (2009: KD 258,419 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender (Note 14). The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 29% (2009:30%) 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 33,789 thousand (2009: KD 29,659 thousand).

Notes to the Consolidated Financial Statements at 31 December 2010

13 PROPERTY AND EQUIPMENT (continued)

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 248,820 thousand (2009: KD 166,882 thousand) and is receivable as follows:

	2010 KD 000's	2009 KD 000's
Income receivable within one year	44,650	36,881
Income receivable within one year to five years	141,892	99,854
Income receivable after five years	62,278	30,147
	248,820	166,882

14 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2010 KD 000's	2009 KD 000's
Current accounts	1,627	1,938
Murabaha payable	1,847,002	1,261,332
Sukook payable	24,638	-
Obligations under finance leases (Note 13)	338,313	197,655
	2,211,580	1,460,925

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

Property and equipment include 38 aircraft acquired by a subsidiary under finance leases denominated in US Dollars: Nine aircraft with finance lease obligations maturing within 5 years and 29 aircraft with lease obligations maturing after 5 years. The obligations under finance leases are secured by the aircraft (Note 13). The installments payable within one to five years are KD 169,046 thousand and installments payable after 5 years are KD 164,824 thousand.

15 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'a.

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'a. 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 equityholders 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:

	2010 % per annum	2009 % per annum
Investment deposits - ("Mustamera")	2.378	2.780
Investment deposits - ("Sedra")	1.850	2.162
Investment savings accounts - ("Tawfeer")	1.585	1.853

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

Notes to the Consolidated Financial Statements at 31 December 2010

16 OTHER LIABILITIES

	2010 KD 000's	2009 KD 000's
Trade payable	211,095	175,260
Accrued expenses	90,073	110,667
Certified cheques	84,169	69,183
Employees' end of service benefits	42,098	36,639
Letter of guarantee covered	41,650	35,515
Maintenance reserve	15,850	7,032
Refundable deposits	12,696	30,877
Provision on non cash facilities	11,340	10,462
Due to customers for contract work	7,143	17,747
Others	86,021	70,069
	602,135	563,451

17 FAIR VALUE RESERVE

Changes in the fair value of available for sale investments and currency swaps, profit rate swaps and foreign exchange contracts 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 equityholders. 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 equityholders of the Bank.

	2010 KD 000's Available for sale investments	2010 KD 000's Currency swaps and profit rate swaps, and forward foreign exchange contracts	2010 KD 000's Total	2009 KD 000's Total
Balance at 1 January	(31,153)	(2,444)	(33,597)	11,394
Change in fair value of available for sale investments	(32,447)	-	(32,447)	(88,644)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	-	2,973	2,973	(2,444)
Loss realised on available for sale investments during the year	6,069	-	6,069	672
Impairment loss transferred to consolidated statement of income	16,930	-	16,930	49,210
Share of other comprehensive loss of associates (Note 10)	(2,927)	-	(2,927)	(3,785)
Balance at 31 December	(43,528)	529	(42,999)	(33,597)

Unrealized losses on revaluation of available for sale investments recognized directly in fair value reserve include KD (795) thousand (2009: KD (1,977) thousand) relating to unquoted equity investments resulting from the use of valuation techniques.

18 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 equityholders. 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 equityholders of the Bank.

Notes to the Consolidated Financial Statements at 31 December 2010

19 SHARE CAPITAL

a) Share capital

	2010	2009
	KD 000's	KD 000's
Authorised, issued and fully paid :		
2,489,852,474 (2009 : 2,305,418,958) shares of 100 fils each	**248,985**	230,542

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

	2010	2009
Number of shares in issue 1 January	**2,305,418,958**	2,058,409,784
Bonus issue	**184,433,516**	247,009,174
Number of shares in issue 31 December	**2,489,852,474**	2,305,418,958

Treasury shares and treasury share reserve

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

	2010	2009
Number of treasury shares	**24,665,000**	31,127,500
Treasury shares as a percentage of total shares in issue	**0.99%**	1.35%
Cost of treasury shares (KD)	**26,722,320**	36,661,861
Market value of treasury shares (KD)	**28,611,400**	34,240,250

Movement in treasury shares was as follows:

	No. of shares	
	2010	2009
Balance as at 1 January	31,127,500	5,315,000
Purchases	16,030,000	65,272,500
Bonus issue	2,490,617	1,502,725
Sales	(24,983,117)	(40,962,725)
Balance as at 31 December	24,665,000	31,127,500

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

20 RESERVES

In the ordinary and extraordinary general assembly meeting of the equityholders 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 equityholders 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 11,051 thousand equivalent to approximately 10% (2009: KD 12,393 thousand equivalent to approximately 10%), of the profit for the year attributable to the equityholders 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.

23% (2009: 25%) of the profit for the year attributable to the equityholders 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.

Notes to the Consolidated Financial Statements at 31 December 2010

21 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 20% for the year ended 31 December 2010 (2009: 25%) and issuance of bonus shares of 8% (2009: 8%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equityholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 160 thousand (2009: KD 160 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equityholders of the Bank.

22 SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	Country of registration	Interest in equity %		Principal activities	Financial statements reporting date
		2010	2009		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2010
KFH Private Equity Ltd.	Cayman	100	100	Islamic investments	30 September 2010
KFH Financial Service Ltd.	Cayman	100	100	International Real Estate Development and investments	30 September 2010
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2010
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate development and leasing	31 October 2010
Development Enterprises Holding Company K.S.C.	Kuwait	100	100	Infrastructure and industrial investments	30 September 2010
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real Estate development and investment	30 September 2010
Liquidity Management House K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2010
Saudi Kuwaiti Finance House S. S. C. (Closed)	Saudi Arabia	100	100	Islamic Investment	30 September 2010
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy, and software services	30 September 2010
Kuwait Finance House B.S.C.	Bahrain	93	93	Islamic banking services	30 November 2010
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	30 September 2010
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2010
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	53	53	Aircraft leasing and financing services	30 September 2010
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	50	50	Real estate, investment, trading and real estate management	31 October 2010

Notes to the Consolidated Financial Statements at 31 December 2010

23 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:

	2010 KD 000's	2009 KD 000's
Acceptances and letters of credit	166,617	145,680
Letter of Guarantees	1,056,805	955,777
	1,223,422	1,101,457
Capital commitments	1,337,272	1,327,082

24 CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD CONTRACTS

In the ordinary course of business the Group enters into currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts to mitigate foreign currency and profit rate risk. Currency swaps and forward commodity contracts are based on Wa'ad (promise) structure between two parties to buy a specified Shareea'a 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, forward foreign exchange and forward commodity contracts are being used to hedge the foreign currency risk of the firm commitments.

At 31 December 2010, the Group held currency swaps, profit rate swaps, forward foreign exchange and forward commodity 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 these instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instruments' 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.

31 December 2010				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						
Forward contracts	87	202	40,112	30,014	10,098	-
Profit rate swaps	175	91	28,716	-	-	28,716
Currency swaps	560	-	22,440	1,403	-	21,037
	822	293	91,268	31,417	10,098	49,753
Not designated as hedges						
Forward contracts	10,430	2,975	232,830	149,521	83,037	272
Profit rate swaps	1,793	3,296	123,091	-	-	123,091
Currency swaps	2,643	2,431	135,027	103,208	-	31,819
	14,866	8,702	490,948	252,729	83,037	155,182
	15,688	8,995	582,216	284,146	93,135	204,935

Notes to the Consolidated Financial Statements at 31 December 2010

In respect of forward foreign exchange, forward commodity 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:

31 December 2010	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	425,495	279,025	92,638	53,832
Outflows	430,408	284,145	93,135	53,128
Net cash flows	(4,913)	(5,120)	(497)	704

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						
Forward 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 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 forward foreign exchange and forward commodity 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:

31 December 2009	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.

Notes to the Consolidated Financial Statements at 31 December 2010

25 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 equityholders 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 2010**	Total 2009
	KD 000's	KD 000's	KD 000's	KD 000's	**KD 000's**	KD 000's
Related parties						
Receivables	8,696	100,803	4,705	28,991	**143,195**	247,588
Due to banks and financial Institutions	755,517	7,979	-	-	**763,496**	321,915
Depositors' accounts	36,811	8,379	6,307	34,261	**85,758**	96,687
Commitments and contingencies	886	610	34	6,480	**8,010**	21,459

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			
	2010	2009	**2010**	2009	**2010**	2009
					KD 000's	KD 000's
Board Members						
Finance facilities	**4**	6	**3**	3	**2,201**	5,586
Credit cards	**11**	8	**-**	1	**42**	53
Deposits	**28**	24	**62**	52	**4,373**	3,958
Collateral against financing facilities	**3**	3	**-**	-	**3,216**	2,663
Executive officers						
Finance facilities	**17**	16	**3**	4	**3,086**	2,340
Credit cards	**14**	26	**4**	6	**31**	71
Deposits	**29**	27	**81**	76	**4,515**	5,616
Collateral against finance facilities	**8**	8	**1**	1	**3,364**	3,713

Compensation of key management personnel is as follows:

	2010	2009
	KD 000's	KD 000's
Short-term employee benefits	**9,480**	10,274
Termination benefits	**592**	656
	10,072	10,930

26 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.

Notes to the Consolidated Financial Statements at 31 December 2010

31 December 2010	Treasury	Investment	Retail and corporate banking	Other	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Total assets	3,213,236	3,692,310	4,530,962	1,111,991	12,548,499
Total liabilities	2,215,127	16,653	7,861,355	369,662	10,462,797
Income	31,356	63,111	599,463	42,369	736,299
Impairment	-	(57,361)	(108,266)	(33,006)	(198,633)
Profit before distribution to depositors	26,918	(3,998)	197,145	19,107	239,172

31 December 2009	Treasury	Investment	Retail and corporate banking	Other	Total
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Total assets	2,809,279	3,254,077	4,280,678	946,660	11,290,694
Total liabilities	1,469,963	18,489	7,400,606	397,145	9,286,203
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

Secondary segment information

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

	Assets		Liabilities		Commitments and contingencies under letters of credit and guarantees	
	2010	2009	2010	2009	2010	2009
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Geographical areas:						
The Middle East	8,507,487	8,124,258	7,747,858	7,080,218	437,671	413,042
North America	217,323	231,573	36,957	30,938	566,635	595,021
Western Europe	541,906	368,799	421,490	229,752	319,384	466,354
Other	3,281,783	2,566,064	2,256,492	1,945,295	1,237,004	954,122
	12,548,499	11,290,694	10,462,797	9,286,203	2,560,694	2,428,539

	Local		International		Total	
	2010	2009	2010	2009	2010	2009
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
Income	397,217	440,851	339,082	325,852	736,299	766,703
Profit before distribution to depositors	164,896	175,276	74,276	94,318	239,172	269,594

Notes to the Consolidated Financial Statements at 31 December 2010

27 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.

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

	2010 KD 000's	2009 KD 000's
Trading and manufacturing	2,611,373	2,363,875
Banks and financial institutions	3,527,637	3,292,671
Construction and real estate	3,726,968	3,599,269
Other	2,682,521	2,034,879
	12,548,499	11,290,694

See Note 26 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 2010 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's
Geographic region						
The Middle East	7,618,052	129,806	7,747,858	6,954,192	126,026	7,080,218
North America	112	36,845	36,957	95	30,843	30,938
Western Europe	60,381	361,109	421,490	26,455	203,297	229,752
Other	2,145,085	111,407	2,256,492	1,883,285	62,010	1,945,295
	9,823,630	639,167	10,462,797	8,864,027	422,176	9,286,203

28 FOREIGN CURRENCY EXPOSURE

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

	2010 KD 000's Equivalent Long (short)	2009 KD 000's Equivalent Long (short)
U.S. Dollars	301,558	209,298
Sterling Pounds	10,408	12,919
Euros	15,089	5,534
Gulf Cooperation Council currencies	420,966	375,969
Others	58,111	50,304

Notes to the Consolidated Financial Statements at 31 December 2010

29 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 Bank's 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 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.

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 currency swaps, 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.

30 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 on the next page 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 impairment), before the effect of mitigation through the use of master netting and collateral agreements.

Notes to the Consolidated Financial Statements at 31 December 2010

30 CREDIT RISK (continued)

	Note	Gross maximum exposure 2010 KD 000's	Gross maximum exposure 2009 KD 000's
Balances with banks and financial institutions		389,460	396,719
Short-term international murabaha		1,597,372	1,257,573
Receivables	7	5,545,915	5,090,398
Leased assets	8	1,272,703	1,288,066
Investments – Sukook	9	381,344	241,252
Other assets		194,292	276,015
Total		9,381,086	8,550,023
Contingent liabilities	23	1,223,422	1,101,457
Commitments	23	1,337,272	1,327,082
Total		2,560,694	2,428,539
Total credit risk exposure		11,941,780	10,978,562

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 2010 was KD 112,518 thousands (2009: KD 133,279 thousands) before taking account of collateral which is fully covered by real estate collateral.

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 2010 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's
The Middle East	6,237,177	153,040	6,390,217	6,058,266	196,890	6,255,156
North America	130,940	22,820	153,760	25,272	13,343	38,615
Western Europe	153,769	6,276	160,045	185,062	3,193	188,255
Other	2,634,686	42,378	2,677,064	2,021,112	46,885	2,067,997
	9,156,572	224,514	9,381,086	8,289,712	260,311	8,550,023

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 2010 KD 000's	Banking KD 000's	Non-banking KD 000's	Total 2009 KD 000's
Trading and Manufacturing	1,088,404	35,560	1,123,964	1,000,950	10,461	1,011,411
Banks and financial Institutions	2,500,276	21,092	2,521,368	2,522,436	64,354	2,586,790
Construction and Real Estate	2,856,187	65,226	2,921,413	2,567,211	43,387	2,610,598
Other	2,711,706	102,635	2,814,341	2,199,115	142,109	2,341,224
	9,156,573	224,513	9,381,086	8,289,712	260,311	8,550,023

Notes to the Consolidated Financial Statements at 31 December 2010

Credit quality per class of financial assets

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

31 December 2010	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
	2010	2010	2010	2010
	KD 000's	KD 000's	KD 000's	KD 000's
Receivables:				
International murabahas	158,448	991,087	248,410	1,397,945
Local murabahas and wakala	-	3,377,174	613,620	3,990,794
Istisna'a and other receivables	248	101,606	55,322	157,176
	158,696	4,469,867	917,352	5,545,915
Leased assets	-	1,172,675	100,028	1,272,703
Investments – sukook	131,857	249,487	-	381,344
	290,553	5,892,029	1,017,380	7,199,962

31 December 2009	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	113,362	89,419	203,301
	380,090	3,841,939	868,369	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	5,170,422	1,018,609	6,619,716

Notes to the Consolidated Financial Statements at 31 December 2010

30 CREDIT RISK (continued)

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

31 December 2010	Less than 30 days	31 to 60 days	61 to 90 days	Total
	2010	2010	2010	2010
	KD 000's	KD 000's	KD 000's	KD 000's
Local murabahas	222,294	75,562	61,259	359,115
Istisna'a and other receivables	47,063	256	2,258	49,577
Leased assets	46,117	27,552	22,914	96,583
	315,474	103,370	86,431	505,275

31 December 2009	Less than 30 days	31 to 60 days	61 to 90 days	Total
	2009	2009	2009	2009
	KD 000's	KD 000's	KD 000's	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	55,674	56,520	22,453	134,647
	242,766	214,010	88,504	545,280

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 fair value of collateral and requests additional collateral in accordance with the underlying agreements when necessary.

The fair value of collateral that the Group holds relating to finance facilities individually determined to be past due or impaired at 31 December 2010 amounts to KD 274,884 thousand (2009: KD 187,029 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2010 was KD 29,179 thousand (2009: KD 132,362 thousand). The collateral consists of cash, securities, sukooks, letters of guarantee and real estate assets.

31 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:

	2010 %	2009 %
31 December	23	22
Average during the period	22	21
Highest	24	23
Lowest	20	20

Notes to the Consolidated Financial Statements at 31 December 2010

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 2010 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	447,585	-	-	-	**447,585**
Short-term murabaha	1,597,372	-	-	-	**1,597,372**
Receivables	1,372,284	973,502	1,154,330	2,045,799	**5,545,915**
Trading properties	34,727	82,018	5,628	98,853	**221,226**
Leased assets	383,018	206,478	283,276	399,931	**1,272,703**
Investments	45,347	10,413	25,008	1,102,282	**1,183,050**
Investments in associates	-	-	-	339,307	**339,307**
Investment properties	-	-	-	561,377	**561,377**
Other assets	121,773	102,922	174,072	230,526	**629,293**
Property and equipment	-	-	-	750,671	**750,671**
	4,002,106	**1,375,333**	**1,642,314**	**5,528,746**	**12,548,499**
Liabilities					
Due to banks and financial Institutions	1,127,843	512,799	202,170	368,768	**2,211,580**
Depositors' accounts	3,923,808	459,789	213,164	3,052,321	**7,649,082**
Other liabilities	156,729	38,104	253,025	154,277	**602,135**
	5,208,380	**1,010,692**	**668,359**	**3,575,366**	**10,462,797**

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 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

31 LIQUIDITY RISK (continued)

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
2010						
Contingent liabilities	837,843	45,856	166,738	101,087	71,898	1,223,422
Commitments	303,113	51,537	139,706	38,420	804,496	1,337,272
Total	**1,140,956**	**97,393**	**306,444**	**139,507**	**876,394**	**2,560,694**
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

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

32 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'a.

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 2010 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 % 2010	Effect on profit 2010 KD 000's	Effect on fair value reserve 2010 KD 000's	Change in currency rate in % 2009	Effect on profit 2009 KD 000's	Effect on fair value reserve 2009 KD 000's
USD	+1	3,015	2,622	+1	2,093	2,805
GBP	+1	104	62	+1	129	147

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 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	Change in equity price 2010 %	Effect on fair value reserve 2010 KD 000's	Change in equity price 2009 %	Effect on fair value reserve 2009 KD 000's
Kuwait Stock Exchange	+1	2,740	+1	3,287
Other GCC indices	+1	575	+1	1,415

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.

33 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	**2010 KD 000's**	2009 KD 000's
Risk Weighted Assets	**10,003,152**	9,103,591
Capital required	**1,200,378**	1,092,431
Capital available		
Tier 1 capital	**1,415,691**	1,372,935
Tier 2 capital	**6,772**	11,432
Total capital	**1,422,463**	1,384,367
Tier 1 capital adequacy ratio	**14.15%**	15.08%
Total capital adequacy ratio	**14.22%**	15.21%

The disclosures relating to the capital adequacy regulations issued by 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.

Notes to the Consolidated Financial Statements at 31 December 2010

34 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.

35 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.

36 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2010 amounted to KD 860,261 thousand (2009: KD 866,792 thousand).

Fees and commission income include fees of KD 3,410 thousand (2009: KD 5,605 thousand) arising from trust and fiduciary activities.

36 COMPLIANCE WITH SHAREAEA'A PRINCIPLES

The Shareea'a Supervisory Board of the Bank ("the Board") is repsonsible for monitoring the Bank's compliance with its issued fatwa and resolutions. The Shareea'a Supervisory Board reviews and approves the forms of contracts and agreements after obtaining the necessary information to provide its opinion. Random samples of operations related to the Bank's transactions are reviewed through Shareea'a supervision according to the annual Shareea'a auditor plan for all the departments and throught the periodic reports provided by the Shareea'a Supervisory department about the audit processes, field visits, workflow and the validitiy of implimenting the fatwa and resolutions issued by the Shareea'a Supervisory Board. Accordingly, an annual report about the Bank's compliance with Shareea'a fatwa and resolutions is issued according to those fatwa and resolutions and it is attached along with the Bank's annual report submitted to shareholders in the General Assembly. The procedures adopted bt the Shareea'a Supervisory Board have been looked at.