Kuwait Finance House K.S.C. and Subsidiaries

33rd Annual Report

2011

بيت التمويل الكويتي
Kuwait Finance House

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-Quran

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 Jaber Mubarak Al-Hamad Al-Sabah
The Prime Minister

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Kuwait Finance House (KFH)

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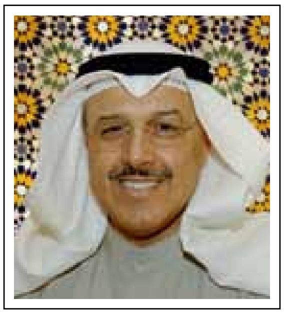
Best
Global
Islamic Finance
Bank

Board of Directors

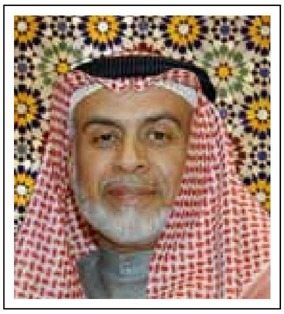
Chairman
Sameer Yaqoub Al-Nafeesi

Vice Chairman
Nabeel Al-Mana'ie



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
Khaled Abdulaziz Al-Hasson

Board Member
Ahmed Abdullah Al-Omar

Board Member
Adel Abdul Muhsen Al-Subeih

Board Member
Iman Al-Humaidan

KFH Online
kfh.com

KFH Online

The top
Rated
App
based on
customer
testimonies

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 31/12/2011. 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 31/12/2011 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.

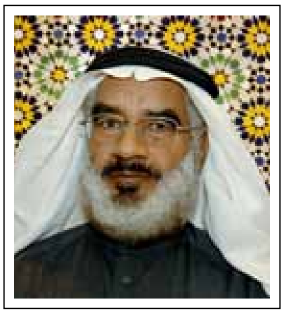
Peace be upon our honorable Prophet Mohammad, his family members and companions and praise be to Allah, Lord of all beings.

Quran App

For iPhone

Gift from
Kuwait Finance House

Their Eminences, Members of Al-Fatwa & Sharia Supervisory Board



Chairman - Sharia Board
Sheikh Dr.
Ajeel Jasem Al-Nashmi

Sharia Board Member
Sheikh Dr.
Khaled Mathkour Al-Mathkour

Sharia Board Member
Sheikh Dr.
Anwar Shuaib Abdulsalam

Sharia Board Member
Sheikh Dr. Mohammad
Abdul Razak Al-Tabtabae

Sharia Board Member
Sheikh Dr.
Mubarak Jaza Al-Harbi

Redefining the
Concept
of Deposits

AL-KHUMASIYA

The First Five Years Investment Deposit

- Investment Rate 100%
- 5 year deposts term automatically renewed.

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
Mohammad Saeed Abdul Wahab

Assistant General Manager
Abdulnaser Abdul Muhsen
Al-Subeih

Saving Account for Higher Education

Operational Quality Strategy in Light of Stability

Chairman
Sameer Yaqoub Al-Nafeesi

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.

Dear Shareholders,

On behalf of the Board of Directors of Kuwait Finance House (KFH), the executive management team and staff, I am pleased to present to you the Kuwait Finance House (KFH) Annual Report for the financial year ending on 31 December 2011. It includes the report of the Fatwa and Sharia Supervisory Board (FSSB), the achievements of the past year, the latest local, regional and international economic developments, updates about KFH and its subsidiaries, and the auditors' report.

The year 2011 was an outstanding year for KFH as it ranked best among the Islamic banks worldwide. KFH managed to develop its potential to the fullest, improve its performance, and increase its operational quality at the KFH Group level. On this front, KFH relied on its key competencies which include access to the largest customer and retail base in Kuwait, ownership of an effective share in the markets where the KFH Group banks operate, and offering the largest portfolio of Sharia-compliant products services. This is in addition to its ranking as the leading bank in consumer financing, its prestigious status in the real estate market, its meeting of various investment requirements, and its benefiting from the development and variety in the emerging and promising markets where the Group subsidiaries operate as platforms attracting global investments.

KFH managed to achieve positive performance in spite of the unfavorable economic conditions in the local and international markets. This was realized by maintaining stability in operational revenues, increasing asset growth and deposit growth ratios, as well as remarkably increasing shareholders' equity. Achieving these results is attributable, first, to the grace of Allah and, next, to prudent strategy, as well as the policies and strategies which contributed fundamentally to overcoming the challenges emanating from the financial crisis.

Year-end financial indicators highlighted growth in KFH assets reached to KD 13.5 billion at an increase of KD 912 Million, a 7.3% growth rate. Demand for deposit offers also grew positively. Total Group deposits amounted to KD 8.9 billion at an increase of KD 1.2 billion and 16.1% growth rate. Shareholders' equity sloped upwards by KD 1.3 billion at an increase of KD 2 million. At the same time, KFH Group maintained stability of operational revenues at KD 872.1 million at an increase of KD 135.8 Million and 18.4% growth rate.

KFH also sets aside additional general provisions in an attempt to demonstrate commitment to its conservative policy to enhance the quality of its assets, promote its operational competence, and sustain continuous growth. KFH's considered measures were aimed at addressing the negative impacts and repercussions of the financial crisis. Such measures fit within a framework meant to further strengthen KFH's financial position and reinforce its future expansion and prospective growth.

Simultaneously, KFH continued to receive several prestigious awards in banking. Such awards included the Best Islamic Bank Award and the Best Islamic Bank in the GCC and Kuwait Award from Global Finance international magazine. The awards were granted in recognition of KFH's leadership and positive contribution to the Islamic financial service industry. Global Finance also awarded KFH the Best Islamic Real Estate Financier Award.

In addition, KFH received the Best Project Financing Bank Award from Banker Middle East; a magazine specialized in the banking sector, in recognition of its role in supporting major projects locally, regionally and internationally. Further, KFH received the Best Client Internet Service Bank Award from Global Finance magazine, the Best Islamic Bank Award in Kuwait from Asiamoney and Islamic Finance News, the Best Provider of Rental Services from Islamic Finance News, the Best Innovative Transaction from Euromoney, the Best Program in the Middle East in the Field of Social Responsibility and the Best Islamic Bank in the Middle East from EMEA Finance.

See More with the New KFH Cards

Credit Rating

KFH has successfully introduced Islamic financial transactions as a daily reality in many communities and desirable instruments in most of the major world markets. Within a short period, KFH managed to lay down the foundations for an economy compliant with Islamic Sharia principles. This was realized by setting the cornerstones of legislation and organization as well as developing qualified human resources, thus rendering KFH a universal authority in Islamic banking.

In this regard, KFH maintained the levels of credit rating granted by international rating agencies. According to the accreditation of the international rating agencies, the KFH credit rating as follows in 2011:

KFH Credit Ratings during 2011

Rating Agency	Long Term	Short Term
Capital Intelligence	A+	A-1
Fitch	A+	F-1
Moody's	Aa3	P-1
Standard & Poor's	A-	A-2

Risk Management and Governance

Following KFH's strategic aim to develop and reinforce risk measurement and management systems at Group level in order to reduce the market, credit and operational risks related to its various business activities, KFH retained the services of an independent global consultant. The retainer deliverables include diagnosing and assessing risks at KFH Group level, developing risk frameworks and infrastructure, and improving Group risk management approaches.

Working towards improving performance, reducing risks, and securing shareholders' and investors' equity, KFH adopted a new risk governance structure by modifying the existing risk management organizational structure. This necessitated unifying reports and risk management systems in addition to developing the periodical reports mandated by supervisory authorities.

The Risk Management Banking Committee, tasked to ensure the consistency of the KFH Group risk management approach, has designed a general framework for Group operations in order to improve risk department reports. KFH has fully observed the requirements of regulatory authorities with respect to semi-annual stress test reports. The reports clearly manifest KFH's high flexibility and resistance in the face of rigorous market shocks. Work is also underway in the first phase of the credit risk internal rating automated system implementation involving financial analysis. Other phases will be completed subsequently within the approved timeline.

On the other hand, an integrated plan for a liquidity management mechanism throughout KFH is being developed. In addition, the general framework of the integrated plan for crisis management (Business Continuity) has been completed to guarantee uninterrupted operation throughout the KFH Group. Implementation is currently in progress in the departments concerned. The Risk Management Department is presently engaged in the initial phase of applying the Operational Risks Self Assessments Matrices throughout KFH.

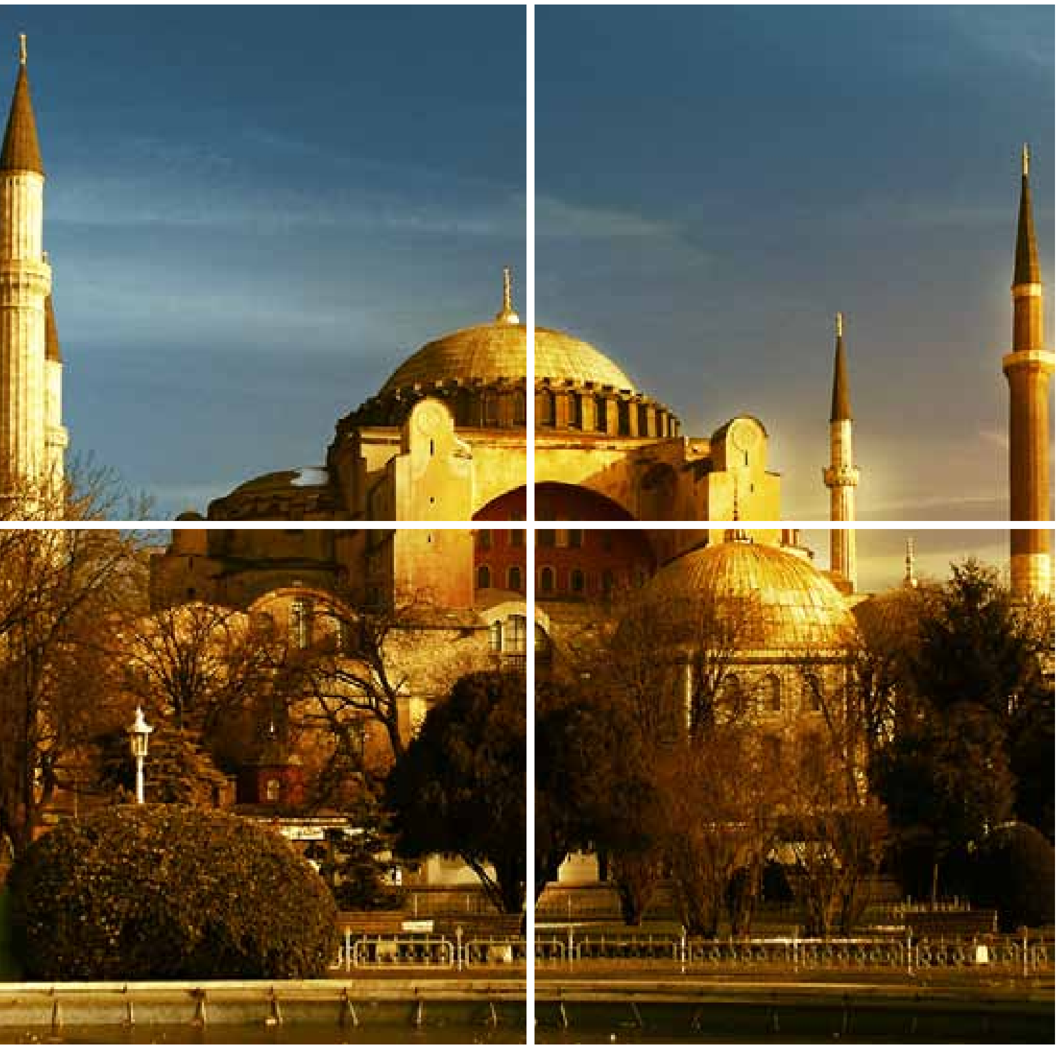
Banking Services and Products

Retail banking services represent the cornerstone of KFH's performance given KFH's reputation in attracting investment deposits and offering multiple services which meet the needs of its different clients. KFH ranked first in the banking deposit market segment in Kuwait, thus reflecting customer confidence and professionalism. KFH continued strategy aims at expanding the customer base, both quantitatively and qualitatively, by increasing its branches, developing communication channels with customers, innovating new products to meet increasing requirements, and striving to improve services continuously in order to achieve the best banking efficiency and quality levels benchmarked against international standards.

During 2011, four new branches were inaugurated in Kuwait bringing the total number of branches to 54 including 39 female dedicated sections. Moreover, KFH is currently executing a project to renovate and refurbish the head office banking hall which will be named after the late Sheikh Ahmed Bazi Al Yasin in honor and commemoration of his pioneering role in establishing KFH. As such, the number of KFH Group branches now total to 255; Kuwait Finance House-Turkey with 181 branches, Kuwait Finance House-Bahrain with 9 branches, Kuwait Finance House-Malaysia with 11 branches in addition to local branches in Kuwait. To improve customer convenience regardless of their whereabouts, ATMs were increased to 250 covering all regions of the State of Kuwait. Mobile Banking Vehicles also have been increased to cover all the governorates and suburbs of the State of Kuwait.

In this context, KFH reinforced its electronic services and online channels and upgraded the KFH Call Center presently equipped with state-of-the-art technology, resources, and competencies. Customer calls which were handled and answered throughout the year exceeded 2 million interactive calls. Outstanding efforts were made to upgrade KFH round-the-clock customer friendly telephone services to promote services, conduct surveys and research, investigate customer satisfaction levels and to identify customer feedback by means of communication teams targeting continuous interaction.

Gold Traded Fund



In a recent initiative reflecting the extent of customer care, a new unit operating according to the latest standards and the best service practices was inaugurated to receive and study customer complaints. This unit reports directly to KFH Chief Executive Officer.

In continuation of the KFH strategy of adopting the best innovations and technological developments to optimize the use of resources and customer outreach, KFH Online services were launched on iPhone for the first time in Kuwait. These services were extended to the different smart phones and were received with noticeable interest by end users and customers. The text message (SMS) service was also maintained.

In an unprecedented initiative in the local market, an original product was released for the first time in Kuwait. The «Al-Khumasiya Investment Deposit» is a five-year deposit with up to 100% investment of the deposit amount. It allows for annual profit distribution and the possibility of liquidation. This product introduces diversity to KFH banking packages. In addition, a new account for the segment of young customers, namely the «Jameati Saving Account», was launched to provide for university education costs through monthly installments. As a promising product enabling customers to meet their future needs, it supports Takaful insurance culture and reinforces saving as an important value.

2011 witnessed a series of successes with respect to issuing and using different banking cards, namely Visa, MasterCard and pre-paid cards. KFH retained its top position and ranked the first in credit cards rating in Kuwait and the Middle East, especially with regard to platinum and gold card products. KFH's marketing campaigns continued to promote different types of credit cards with a focus on accommodating technical developments for issuing transparent cards in vivid colors. Extra attention was paid to issuing pre-paid cards and «Al Kheir" card which were exceptionally welcomed by many KFH customers.

Banking Services for Corporate and High-Net-Worth Clients

During 2011, KFH continued to implement its strategy of achieving operational quality and developing a vast network of relations with corporate customers across all economic sectors. This came as part of KFH's mission of contributing to "developing the land" by using innovative instruments and products in the field of corporate finance, investment banking services, documentary credit services and global transactions.

Throughout the year, the Finance Sector continued to provide a wide spectrum of solutions to finance pioneering projects. It further improved the level of its services and its dealings with customers by upgrading its operation systems and by completing the change to automated systems. Approval for providing e-corporate services by regulatory authorities was secured.

During the year, interest was focused on additional organization of in-house business systems. This was achieved by reviewing the counter guarantees in order to regulate credit facilities in a manner that would maintain KFH assets quality in accordance with its adopted risk policy. In this respect, businesses were restructured and developed and procedures were simplified while broadening the scope of the services provided.

The achievements realized in the real estate sector reflect increased activity and presence of KFH in the real estate market. This is attributable to KFH's prudent real estate experience and awareness of the recent developments in the real estate market. This market witnessed several positive developments in circulation and price hikes, especially in residential and investment properties. The real estate financing instruments introduced by KFH -- namely cash sale, deferred sale, Ijara and investment activities -- had a clear impact on recuperation and leverage in the local real estate markets. KFH succeeded in providing all services via its existing branches network.

KFH's expertise in the real estate field has established it as a major real estate market maker. To generate additional interaction with real estate market input and join efforts with the State. A one billion Kuwaiti Dinars real estate portfolio was launched in collaboration with the Kuwait Investment Authority. It targets investments in retail and commercial real estate sectors in order to yield fulfilling revenues and drive the real estate market, especially the commercial market which suffered from the consequences of the international financial crisis, specifically office buildings in the metropolitan area.

KFH maintained its periodic publications of real estate data and information through a series of quarterly real estate reports dedicated to reporting significant developments in the real estate market. As such, it helped decision makers and real estate professionals to explore market conditions and developments.

In view of the prevailing economic environment, 2011 was a year of consolidation in positions for the most part of top and high net-worth customers in the real estate segment. KFH initiated several real estate and special purpose financial funds. These were highly welcomed by customers and KFH successfully attracted new mutual investments. KFH introduced some investment portfolios while it achieved best the possible returns after conducting the necessary evaluations and studies.

International Fund Activities

A New Commercial Breakthrough

KFH maintained its leading position in the consumer finance market using a set of Sharia-compliant products suiting customers' needs. KFH has a relationship network encompassing more than 4000 suppliers in various economic sectors and activities nationwide.

To maintain the lead in the used cars category, during the past year, KFH inaugurated the largest car showroom at Farwaniah exhibiting a wide range of auto brands in a new and unparalleled style. The aim was ultimately to expand points of sale, which currently include four commercial showrooms following the Farwaniya showroom renovation. A number of outlets were opened in Jahra and Fahaheel.

Currently, KFH is setting up the largest bank-owned auto showroom worldwide that will cover an area of 38000 square meters. The project is to comprise all KFH commercial and banking products and services to satisfy customer needs. This will be coupled with entertainment facilities suitable for all family members and different customer segments.

International Investment and Treasury Management

KFH excels in international investment activities. With the grace of Allah, KFH has continued to maintain a balanced performance at KFH Group level by means of Kuwait Finance House - Turkey which holds a remarkable market share in the promising Turkish economy. It offered banking and investment product packages, with a view to strengthening the Gulf-Turkish relations, and released international products to develop the Islamic financial market. It also issued five-year finance Sukuk of US 350 million via the LMH owned by KFH. LMH succeeded in organizing and marketing Ijara and Wakala Sukuk which were received with much interest upon issuance. This was in addition to introducing a set of creative banking instruments tied to gold.

In Turkey, «Gold» Account was launched in order to enable customers to use it for trading, depositing, or withdrawal via auto-teller machines located in a number of Turkish branches. This account is unique. It was initiated for the first time in Istanbul Stock Market. As a result of this success, KFH - Malaysia launched the «Gold» Account experience to realize more success and to expand into South East Asian markets in order to benefit from the momentum of growth in that region of the world when there were shrinking investment opportunities in the developed countries, especially in Europe and the United States.

KFH - Bahrain has also continued its positive performance. The delivery of the first phase of the «Diar El-Muharraq» Project was completed as part of the successful participation with the Bahraini government in solving the housing problem in the Kingdom of Bahrain. The project comprises a group of residential and commercial real estate units for medium-income people. The project area is 12.2 million square meters. Upon completion, it will be a self-contained city accommodating all modern utilities.

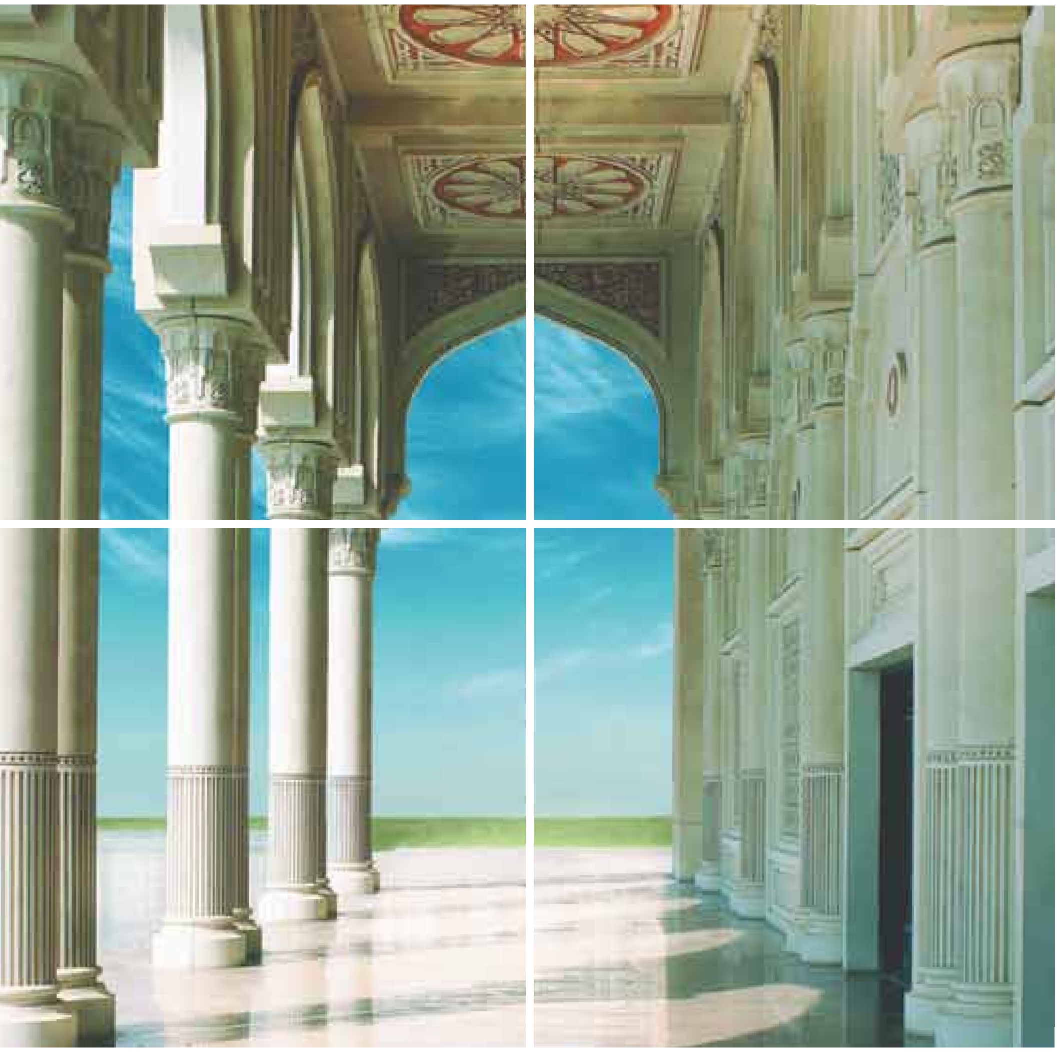
Likewise, the Direct Investment Department sought to attract investment opportunities in the growing markets through investing in selected funds. The Investment Sector initiated certain measures to prevent any impact on KFH investment portfolio. KFH investments are concentrated in unwavering regions such as the Kingdom of Saudi Arabia, Malaysia, Turkey and in the most stable economic sectors such as the banking sector, oil, education and healthcare in the GCC countries. The oil sector represents 31.7% of the sector's investments followed by the banking sector which represents 26.5% and the gas sector which represents 11.4 %.

Within the same framework, and with a view to activating international investments especially in the real estate sector, a KFH delegation presided over by the CEO visited the United States of America. The delegates attended the IMF meetings and inspected our investments in the United States. KFH was awarded the Leadership Shield from the Board of the Association of Foreign Investors in Real Estate (AFIRE). Moreover, KFH was elected as member to this organization and representative of the Middle East region in the last session on account of its international experience in the real estate market.

In addition, in 2011, the KFH Group succeeded in maintaining sufficient liquidity levels and foreign currency requirements through its Treasury Department. The latter managed to handle the quality control requirements, deal with changes, apply Basel II Standards to KFH, and demonstrate readiness to accommodate the expected Basel III developments by providing additional liquidity and maintaining a strong capital base.

2011 was a year characterized by fluctuations in the currency market. However, KFH managed to overcome these conditions and to improve the Treasury Department work mechanisms. In collaboration with 16 pioneering Islamic banks, KFH was a part of the first profitability index to be issued on a daily basis. The index is issued in cooperation with Thomson Reuters Company as an alternative to the Libor. This comes within the framework of KFH's aims, in cooperation with the Islamic Development Bank, to develop the Islamic banks cash market with a view to creating legitimate instruments for dealings and providing liquidity.

Security &
Peace
of Mind



Operations and Information Technology

In its continuous search for the development of procedures and management of operations, and to keep abreast of technological developments, KFH introduced innovative banking solutions. KFH targeted the best solutions and banking applications matching the best international practices and standards in order to upgrade business efficiency and reach the highest quality standards. Moreover, KFH established the control measures necessary to detect and prevent errors. This was meant to reduce the effect of operational and financial risks with a view to reinforcing the local and international KFH standing to provide customers with the best services and products.

The Information Technology Sector continued its support of the different sectors and departments of KFH. It focused on increasing the capacity of equipment, systems, and networks. This covered upgrading and replacing the equipment and systems - including the development of the infrastructure control systems, early warning systems - and providing reserve sites for data storage and client and human resource systems, to match service requirements and keep up with growth.

Human Resources

Among the most important targets of KFH is nationalizing the Kuwaiti workforce, equipping employees with skills and capabilities, participating in developing the local human resources, and providing competitive and qualified staff members. The percentage of the Kuwaiti nationalized workforce exceeded 62% by the end of 2011. Currently, KFH is embarking on developing its organizational structure with the help of an international consultant.

Social Responsibility

At KFH, we are conscious of our responsibility towards the community. We interact with all its parties and cooperate and coordinate with effective and governmental institutions in the field of charity work and the sponsorship of social functions and activities. KFH continued its efforts in the field of social responsibility in 2011 through activities, contributions, and undertakings in the fields of supporting the community capabilities in accordance with KFH's social role. It was the first Islamic bank in the world to issue the KFH Group Corporate Sustainability Report according to the GRI standards. The report presents a true representation of the role of KFH and its contributions to society. KFH has continued its social role in the fields of education, healthcare, youth, serving people with special needs, caring for the poor, helping self-respecting needy families and supporting the charitable and social activities of many official organizations and societies. This year, the social activities of KFH included several major projects to which it donated approximately KD 9 million. The most important donations included KD 4 million paid to the Zakat House and USD 5 million dedicated to alleviating the effects of famine and drought in the region of the Horn of Africa. KFH continued its contributions to the international and local efforts aimed at combating diabetes and educating people about its hazards and effects on human health and its societal consequences. This underlines the significant social role played by KFH and its extension to the international level. KFH participated in the International Conference on Diabetes held in Dubai in 2011 and launched a special and outstanding utility application on iPhones directed to the diabetics and others concerned with diabetes. This free application includes information, tips, and important applications that are useful to patients. It is available in both English and Arabic languages, and it is the first application to be issued by a local banks and or company.

Profit Dividends

I would like to announce that the Board of Kuwait Finance House (KFH) agreed, subject to the approval of General Assembly, to distribute cash dividends of KD 39.6 Million and bonus shares to KFH shareholders of KD 21.5 Million.

Distributions

Profits were distributed to the investor depositors for the fiscal year ending as at 31 December 2011 as follows:

Account Type	2011	2010
Al Khumasiya Investment Deposits	1.920 %	-
Mustamera Investment Deposits	1.728 %	2.378 %
Sedra Investment Deposits	1.344 %	1.850 %
Investment Saving Account	1.152 %	1.585 %

Review of Important Economic Developments

The year 2011 witnessed adverse economic developments resulting from the aggravation of the European sovereign debt crisis, the faltering implementation of the reform program in Greece, Ireland and Italy as approved by IMF and the European Community in addition to Standard and Poor's downgrade of the sovereign rating of the United States. Political unrest and revolutions in the Arab territories resulted in confusion in the currency market and a higher than expected rise in the price of gold as a secure refuge to maintain liquidity.

Such developments forced the IMF to lower its predictions of international economic performance. They also resulted in the inability of the developed countries, represented by the European Community and the United States, to overcome an international recession because of the increase in foreign indebtedness as well as the inability of such countries to raise their governmental expenditures to set international economic activity in motion. The IMF lowered its expectation of international economic growth from 4.2% to 4.0% during 2011 due to the imbalance

Put the
World
Within Your
Hands

in public finance and financial sectors in many of the developed economies while most developing economies maintained their high growth rates.

Despite the decrease and disturbance in the international and local markets as a result of these negative developments, international growth has become of a multi-speed pace. Countries with emerging economies as well as some developing countries have managed to overcome the international recession and achieved positive growth rates. Consequently, they attracted capital looking for better returns than those derived from securities and bonds in developed countries.

The economic performance of the GCC countries has improved with a growth rate exceeding 7% in 2011, and it is expected to maintain a growth rate of 5% in 2012. A number of countries, particularly Saudi Arabia, increased their oil production on a temporary basis to encounter the rising prices of oil and overcome the shortfall on Libyan production. Most Gulf Cooperation Council countries, on account of the higher oil prices in 2011 with the average OPEC basket price reaching USD 85 per barrel, witnessed a gradual increase in their government spending. They also provided additional support to non-oil sector which is expected to grow at 4.5% throughout 2011 and 2012. On the other hand, the IMF expects an increase in the surplus of the foreign current accounts of oil-exporting countries, with the exception of Libya, from USD 202 billion to USD 344 billion with an increase from USD 163 billion to USD 279 billion in the GCC countries.

At the same time, the prospects of economic growth are challenged by the risks of much felt negative developments, the most important of which are the possibility of sharp sluggishness in global economic activity. Such slowdown would be attributed to the difficulties experienced by the developed economies in their quest to meet the challenges of indebtedness and public finances.

At the local level, the Kuwaiti economy continued to achieve positive results in 2011 with a growth rate of 4.4% compared to 3.4% in 2010. There was a steady rise in the average per capita income. At the foreign level, the current account recorded a surplus in 2011. The percentage of surplus compared to the GDP is approximately 36.3%. Likewise, in the general budget, the surplus amounted to 21.7% compared to the GDP.

With respect to monetary policy, the Central Bank of Kuwait continued its policy aiming at achieving stability in the exchange rate of the Kuwaiti dinar. It also continued its efforts to maintain the integrity and stability of the banking system through the imposition of precautionary instructions and the implementation of banking supervision in accordance with international standards.

As for the Kuwaiti Stock Exchange, despite some losses the index of the Kuwait Stock Exchange maintained some sort of relative stability during 2011. Also, the Capital Market Authority managed to issue the executive regulations of the Capital Market Authority Law which came into force during the same year.

Finally, we are grateful to Allah for the achievements realized by KFH in 2011 which aimed at promoting its leading position globally. I am therefore confident that KFH will enhance its growth and status in the coming years to serve as the world's leading Islamic bank and on all levels of new and innovative products and services.

Let me seize this opportunity to congratulate KFH executive management team and employees on their active role in promoting the pioneering status of KFH. The executive management team has taken several actions which contributed to meeting the challenges posed by the current financial crisis. I would like to thank the esteemed Fatwa and Sharia Supervisory Board for seeking only Halal earnings and avoiding the suspicious and impermissible in all of our transactions.

I would also like to express my appreciation and special gratitude to His Highness, the Emir Sheikh Sabah Al-Ahmad Al-Sabah and His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah. May Allah protect them. I would also like to extend my thanks to all concerned authorities and our valued customers.

Samir Yaquob Al Nafisi

Chairman

Capital Adequacy Disclosure

Capital Adequacy Disclosures

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

First: Group Structure

Kuwait Finance House (the "Bank") and its subsidiaries' (collectively the "Group") are engaged in providing Islamic banking, 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 are accounted for using the equity method. Details about subsidiaries and associates are as follows:

1. Subsidiaries:-

1.1 Kuwait Finance House (Malaysia) Berhard: is a 100% (2010: 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% (2010: 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% (2010: 100%) owned subsidiary company, registered in Cayman Islands. It has one subsidiary and one associate company. Its main activity is in the real estate sector outside Kuwait.

1.4 Al Muthanna Investment Company K.S.C. (Closed): is a 100% (2010: 100%) owned investment company. Its activities comply with Islamic Shari'a that 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 K.S.C (Closed): is a 100% (2010: 100%) owned real estate investment company. It is engaged in owning, sale and purchase of real estate, development of the company's properties, development of properties and land on behalf of customers inside and outside Kuwait.

1.6 Development Enterprises Holding Company K.S.C: is a 100% (2010: 100%) owned subsidiary its main activities include owning long-term strategic assets through investment or financing in companies with industrial and commercial activities.

1.7 Baitak Real Estate Investment Company S.S.C. (Closed): is a 100% (2010: 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 K.S.C. (Closed): is a 100% (2010: 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 S.S.C. (Closed): is a 100% (2010: 100%) owned subsidiary, registered in 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 Company K.S.C. (Closed): is a 97% (2010: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies.

1.11 Kuwait Finance House B.S.C. : is a 93% (2010: 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 & communications sector and the real estate investment activities.

1.12 Kuwait Turkish Participation Bank: is a 62% (2010: 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 financing real estate development.

1.13 ALAFCO – Aviation Lease & Finance Company K.S.C. (Closed): is a 53% (2010: 53%) owned subsidiary. Its main activities include the purchase and leasing of aircraft according to Islamic Shari'a principles.

1.14 Aref Investment Group K.S.C. (Closed): is a 52% (2010: 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 Enma'a Real Estate Company K.S.C. (Closed): is a 50% (2010: 50%) owned subsidiary engaged in real estate activities including operating leases.

Capital Adequacy Disclosures

2. Direct Investment in Associates:

2.1 First Takaful Insurance Company K.S.C. (Closed): is a 28% (2010: 28%) 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 K.S.C. (Closed): is 20% (2010: 20%) owned associate. Its main activities include investment and financing activities and financial & advisory services.

2.3 Sharjah Islamic Bank P.J.S.C. : is a 20% (2010: 20%) owned 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.

2.4 First Investment Company K.S.C. (Closed): is 9% (2010: 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.

2.5 Specialties Group Holding Company K.S.C. (Closed): is 30% (2010: 30%) owned associate, it conducts various activities represented in equities acquirement, establishment of new companies which includes management, financing and guaranteeing, acquisition of industrial patents and trademarks and investing in portfolios managed by others.

Second: Capital Structure

The group capital comprises Tier (1) capital which demonstrates the group's strength and includes share capital, reserves, minority interest, minus the treasury shares, goodwill and unconsolidated Financial Institutions, 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 2011, Tier (1) "Core Capital" amounted KD 1,404,493 thousand (2010: KD 1,415,691 thousand), Tier (2) "Supplementary Capital" amounted KD 23,206 thousand (2010: KD 6,772 thousand) as detailed below:

	2011 (KD' 000)	2010 (KD' 000)
Capital Structure		
Tier (1) Core Capital		
Share Capital	268,904	248,985
Disclosed reserves	1,030,639	1,018,763
Minority interest in consolidated subsidiaries	264,659	311,999
Total (1)	1,564,202	1,579,747
Deduction from Tier (1) – Core Capital		
Treasury shares	46,813	26,722
Goodwill	46,291	44,163
Unconsolidated institutions	1,556	27,451
Significant minority investments	62,674	63,595
Investment in insurance entities	2,375	2,125
Total (2)	159,709	164,056
A) Total Tier (1) capital	1,404,493	1,415,691
Tier (2) Supplementary Capital		
Asset revaluation reserves	(20,197)	2,834
Fair value reserves	(3,511)	(11,610)
General provisions	113,519	108,719
Total (3)	89,811	99,943
Deduction from Tier (2) Supplementary Capital		
Unconsolidated financial institutions	1,556	27,451
Significant minority investments	62,674	63,595
Investment in insurance entities	2,375	2,125
Total (4)	66,605	93,171
B) Total tier (2) of capital	23,206	6,772
Total Available Capital	1,427,699	1,422,463

Third: Capital Adequacy Ratios

At 31st of December 2011 the total Capital Adequacy ratio 13.73% and Tier (1) 13.51% (2010: The total of Capital Adequacy ratio was 14.22%, and Tire (1) 14.15%) 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 is as follows:

	2011		2010	
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	12.93%	14.02%	20.1%	21.3%
Kuwait Finance House – Bahrain	21.32%	23.20%	15.5%	15.9%
Kuwait Turk Participation – Turkey	16.83%	18.14%	17.8%	19.1%

Fourth: Risk weighted assets and Minimum Capital Requirement

1. Credit risk

The minimum required capital for credit risk exposures was KD 1,067,929 thousand as at 31 December 2011 (2010: KD 1,037,525) as detailed below:

2011 (KD' 000)

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	262,951	262,951	308	37
2	Claims on sovereigns	1,207,920	1,207,920	63,997	7,680
3	Claims on public sector entities	49,777	49,777	7,932	952
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	1,090,160	1,085,703	237,658	28,519
6	Claims on corporates	3,306,222	2,652,083	1,976,793	237,215
7	Regulatory retail exposure	2,070,100	1,866,245	1,406,020	168,722
8	Qualifying residential housing financing facilities	265,198	104,501	29,143	3,497
9	Past due exposures	412,020	360,462	240,392	28,847
10	Inventory and commodities	565,359	565,359	557,457	66,895
11	Real estate investments	884,248	884,248	1,409,811	169,177
12	Investment and financing with customers	2,504,906	1,413,890	1,707,844	204,941
13	Sukuk and taskeek	133,525	133,525	68,924	8,271
14	Other exposures	1,496,541	1,496,541	1,193,126	143,176
	Total	14,248,927	12,083,205	8,899,405	1,067,929

Capital Adequacy Disclosures

1. Credit risk (Continued)

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	986,174	986,174	277,248	33,270
6	Claims on corporates	3,151,857	2,422,054	1,902,900	228,348
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	151,419	151,419	71,802	8,616
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

2. Market risk

Market Risk Weighted Exposure during the financial year 2011 amounted KD 722,492 thousand (2010: KD 600,642 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 86,699 thousand (2010: KD 72,077 thousand).

One of the methods used to mitigate exchange rate risks for which the bank is exposed to, include netting of exchange of deposits transactions with banks and financial institutions.

3. Operational risk

Operational risk weighted exposures calculated during the year 2011 amounted to KD 777,844 thousand (2010: KD 756,470 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 93,341 thousand (2010: KD 90,776 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 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.

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.

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, counterparty defaults, counterparties 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)

2011
(KD' 000)

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	262,951	-	262,951
2	Claims on sovereigns	1,207,920	1,207,920	-
3	Claims on public sector entities	49,777	-	49,777
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	1,085,703	736,515	349,188
6	Claims on corporates	2,652,083	642,588	2,009,495
7	Regulatory retail exposure	1,866,245	-	1,866,245
8	Qualifying residential housing financing facilities	104,501	-	104,501
9	Past due exposures	360,462	-	360,462
10	Inventory and commodities	565,359	-	565,359
11	Real estate investments	884,248	-	884,248
12	Investment and financing with customers	1,413,890	298,458	1,115,432
13	Sukuk and taskeek	133,525	133,525	-
14	Other exposures	1,496,541	-	1,496,541
	Total	12,083,205	3,019,006	9,064,199

Capital Adequacy Disclosures

				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	986,174	635,298	350,876
6	Claims on corporates	2,422,054	381,483	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	151,419	151,419	-
14	Other exposures	1,592,575	-	1,592,575
	Total	11,356,893	2,440,057	8,916,836

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

			2011 (KD'000)
Ser.	Credit risk exposures	Self financed	Finance from Investment Accounts
1	Cash item	164,652	98,299
2	Claims on sovereigns	756,364	451,557
3	Claims on public sector entities	31,169	18,608
4	Claims on multilateral development banks	-	-
5	Claims on banks	650,726	388,489
6	Claims on corporates	1,406,332	839,594
7	Regulatory retail exposure	1,216,981	726,549
8	Qualifying residential housing financing facilities	166,059	99,139
9	Past due exposures	257,553	153,762
10	Inventory and commodities	354,011	211,348
11	Real estate investments	552,489	329,841
12	Investment and financing with customers	1,564,590	934,075
13	Sukuk and taskeek	83,609	49,915
14	Other exposures	934,669	558,006
	Total	8,139,204	4,859,182

Ser.	Credit risk exposures	2010 (KD'000) Self financed	Finance from 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	575,772	363,081
6	Claims on corporates	1,364,623	859,024
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	91,763	59,656
14	Other exposures	968,539	610,894
	Total	7,355,963	4,639,688

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

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self financed	2011 (KD'000) Average Finance from Investment Accounts
1	Cash item	197,507	121,470	76,037
2	Claims on sovereigns	1,228,117	753,816	474,301
3	Claims on public sector entities	51,017	31,294	19,724
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	916,397	532,816	334,413
6	Claims on corporates	3,125,395	1,360,656	857,193
7	Regulatory retail exposure	1,877,000	1,083,645	680,944
8	Qualifying residential housing financing facilities	249,741	153,369	96,373
9	Past due exposures	459,395	280,972	177,337
10	Inventory and commodities	564,915	346,595	218,320
11	Real estate investments	921,881	564,395	355,571
12	Investment and financing with customers	2,386,361	1,461,783	919,191
13	Sukuk and taskeek	143,068	87,787	55,282
14	Other exposures	1,583,796	967,789	610,022
	Total	13,704,590	7,746,387	4,874,708

Capital Adequacy Disclosures

2010
(KD' 000)

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self financed	Average Finance from 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	909,745	489,363	323,009
6	Claims on corporates	3,104,085	1,319,621	870,840
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	38,217	23,153	15,064
14	Other exposures	1,857,315	1,109,549	733,612
	Total	12,680,597	6,943,307	4,585,794

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 Central Bank of Kuwait approved external rating agencies including S&P, Moody's and Fitch to support internal credit ratings.

Geographical Distributions for Credit Risk Exposure

2011
(KD' 000)

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	36,827	-	211,017	15,107	-	262,951
2	Claims on sovereigns	826,882	691	175,271	205,076	-	1,207,920
3	Claims on public sector entities	49,777	-	-	-	-	49,777
4	Claims on multilateral development banks	-	-	-	-	-	-
5	Claims on banks	882,998	18,587	66,404	108,790	13,381	1,090,160
6	Claims on corporates	1,151,942	168,130	1,381,235	603,449	1,466	3,306,222
7	Regulatory retail exposure	1,320,076	10,890	630,696	108,397	41	2,070,100
8	Qualifying residential housing financing facilities	66,054	-	199,144	-	-	265,198
9	Past due exposures	352,098	-	18,323	41,599	-	412,020
10	Inventory and commodities	283,674	12,888	138,012	130,785	-	565,359
11	Real estate investments	789,618	4,950	66,296	23,384	-	884,248
12	Investment and financing with customers	2,253,360	68,777	33,711	149,042	16	2,504,906
13	Sukuk and taskeek	65,422	22,270	19,395	25,861	577	133,525
14	Other exposures	1,295,171	37,971	101,595	59,548	2,256	1,496,541
	Total	9,373,899	345,154	3,041,099	1,471,038	17,737	14,248,927

2010
(KD'000)

Ser.	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	287,713	150,778	3,244	986,174
6	Claims on corporates	1,258,139	295,420	1,021,301	576,712	285	3,151,857
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	85,746	31,803	6,599	27,271	-	151,419
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

Maturities of total Credit Risk exposures

2011
(KD' 000)

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	246,207	-	16,744	262,951
2	Claims on sovereigns	937,871	106,359	163,690	1,207,920
3	Claims on public sector entities	-	12,000	37,777	49,777
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	853,543	123,409	113,208	1,090,160
6	Claims on corporates	698,666	984,295	1,623,261	3,306,222
7	Regulatory retail exposure	196,306	326,278	1,547,516	2,070,100
8	Qualifying residential housing financing facilities	1,072	13,096	251,030	265,198
9	Past due exposures	205,050	155,817	51,153	412,020
10	Inventory and commodities	881	5,457	559,021	565,359
11	Real estate investments	17,768	37,262	829,218	884,248
12	Investment and financing with customers	643,808	998,386	862,712	2,504,906
13	Sukuk and taskeek	42,468	41,194	49,863	133,525
14	Other exposures	122,340	63,708	1,310,493	1,496,541
	Total	3,965,980	2,867,261	7,415,686	14,248,927

Capital Adequacy Disclosures

2010
(KD' 000)

Ser.	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	98,627	986,174
6	Claims on corporates	993,419	685,761	1,472,677	3,151,857
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	18,658	25,222	107,539	151,419
14	Other exposures	105,729	128,812	1,358,034	1,592,575
	Total	4,195,080	2,328,157	6,555,047	13,078,284

Main sectors of total Credit Risk exposures

2011
(KD'000)

Ser.	Credit risk exposures	Manufac-turing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	216,234	-	-	46,717	262,951
2	Claims on sovereigns	-	175,276	-	1,004,742	27,902	1,207,920
3	Claims on public sector entities	-	-	-	-	49,777	49,777
4	Claims on multilateral develop-ment banks	-	-	-	-	-	-
5	Claims on banks	29	1,089,320	-	-	811	1,090,160
6	Claims on corporates	1,492,330	292,577	658,084	21,059	842,172	3,306,222
7	Regulatory retail exposure	314,049	6,553	105,007	11,510	1,632,981	2,070,100
8	Qualifying residential housing financing facilities	-	-	66,054	-	199,144	265,198
9	Past due exposures	49,539	135,565	70,678	104	156,134	412,020
10	Inventory and commodities	4,841	-	881	-	559,637	565,359
11	Real estate investments	-	-	664,321	-	219,927	884,248
12	Investment and financing with customers	120,698	15,574	1,213,086	-	1,155,548	2,504,906
13	Sukuk and taskeek	18,604	101,336	5,146	-	8,439	133,525
14	Other exposures	29,124	516,162	370,027	-	581,228	1,496,541
	Total	2,029,214	2,548,597	3,153,284	1,037,415	5,480,417	14,248,927

2010
(KD'000)

Ser.	Credit risk exposures	Manufacturing & 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	944,231	-	-	41,808	986,174
6	Claims on corporates	1,218,657	377,022	620,574	7,780	927,824	3,151,857
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	19,942	122,802	3,481	-	5,194	151,419
14	Other exposures	23,928	410,645	559,422	-	598,580	1,592,575
	Total	1,611,613	2,246,007	3,032,760	985,008	5,202,896	13,078,284

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 2011, the Bank's non-performing finance facilities including receivables, leased assets and non cash facilities amounted KD 721,528 (2010: KD 910,855 thousand) , KD 688,199 thousand (2010: KD 871,868 thousand) after excluding deferred revenue and suspended profit and KD 542,759 thousand (2010: KD 687,153 thousand) after excluding eligible collaterals in accordance with CBK regulations for specific provision calculation.

   As at 31 December 2011, Group's provisions amounted KD 556,073 thousand (2010: KD 552,770thousand), including general provisions that amounted KD 280,599 thousand (2010: KD 160,171 thousand).

Capital Adequacy Disclosures

Irregular and past due financing facilities exposures based on standard portfolios

2011 (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	Claims on corporate	534,042	179,824	354,218	131,735	359,565
3	Regulatory retail exposure	144,537	80,729	63,808	18,541	50,917
4	Qualifying residential housing financing Facilities	4,651	737	3,914	393	4,769
5	Investment and financing with customers	38,298	14,184	24,114	565	138,823
	Total	721,528	275,474	446,054	151,234	554,074

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	305,619
3	Regulatory retail exposure	130,013	74,846	55,167	-	31,992
4	Qualifying residential housing financing Facilities	5,173	900	4,273	-	9,998
5	Investment and financing with customers	72,376	23,236	49,140	-	167,541
	Total	910,855	392,599	518,256	6,785	515,150

Irregular and past due financing facilities exposures based on geographical distribution

2011 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Middle East & North Africa	571,310	191,499	379,811	135,691	388,594
2	Europe	45,043	21,366	23,677	15,543	81,753
3	Asia	105,175	62,609	42,566	-	83,727
	Total	721,528	275,474	446,054	151,234	554,074

2010 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Middle East & North Africa	660,108	282,229	377,879	6,785	380,989
2	Europe	95,633	42,793	52,840	-	67,155
3	Asia	155,114	67,577	87,537	-	67,006
	Total	910,855	392,599	518,256	6,785	515,150

Irregular and past due financing facilities exposures based on Industrial sectors

2011
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	126,656	81,273	45,383	9,316	109,169
2	Banks and financial institutions	198,081	60,320	137,761	96,321	10,830
3	Constructions & real estate	156,001	62,568	93,433	6,266	177,987
4	Others	240,790	71,313	169,477	39,331	256,088
	Total	**721,528**	**275,474**	**446,054**	**151,234**	**554,074**

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	-	76,183
2	Banks and financial institutions	328,872	142,525	186,347	-	46,749
3	Constructions & real estate	201,253	76,386	124,867	-	132,041
4	Others	294,443	126,508	167,935	6,785	260,177
	Total	**910,855**	**392,599**	**518,256**	**6,785**	**515,150**

General provision

Ser.	Description of credit risk exposures	2011	2010
1	Claims on banks	926	575
2	Claims on corporates	229,079	116,043
3	Regulatory retail exposures	37,112	18,226
4	Real estate investments	2,397	1,541
5	Investment and financing with customers	26,085	23,786
	Total	**295,599**	**160,171**

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 Central Bank of Kuwait 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.

Capital Adequacy Disclosures

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure

2011 (KD'000)

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	262,951	-	-
2	Claims on sovereigns	1,207,920	-	-
3	Claims on public sector entities	49,777	-	-
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	1,090,160	4,458	-
6	Claims on corporates	3,306,222	654,138	-
7	Regulatory retail exposures	2,070,100	203,855	-
8	Qualifying residential housing financing facilities	265,198	160,697	-
9	Past due exposures	412,020	51,558	-
10	Inventory and commodities	565,359	-	-
11	Real estate investment	884,248	-	-
12	Investment and financing with customers	2,504,906	1,091,016	-
13	Sukuk and taskeek	133,525	-	-
14	Other exposures	1,496,541	-	-
	Total	14,248,927	2,165,722	-

2010 (KD'000)

Ser.	Credit Risk Exposures	Goss 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	986,174	-	-
6	Claims on corporates	3,151,857	729,670	134
7	Regulatory retail exposures	1,674,503	203,961	-
8	Qualifying residential housing financing facilities	219,884	120,352	-
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	151,419	-	-
14	Other exposures	1,592,575	-	-
	Total	13,078,284	2,014,529	822

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.

4.2.1 Market Risk Frameworks

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 working days according to Basel Committee.

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 presented 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 departments of the bank 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 controls environment at the bank's 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 & 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.

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

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

Seventh: Shari'a Regulations

Shari'a Control Department (SCD) is considered one of the main departments at Kuwait Finance House. 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 Kuwait Finance House activities. The committee presents its report to the general assembly in its annual general assembly meeting.

In accordance with the Bank's Fatwa and Shareea'a Supervisory Board approval held on 20 December 2011, the Bank has changed Zakat based calculation from reserve method to net working capital method. Accordingly the Bank calculates Zakat at 2.577% on net working capital on completing fiscal year and is paid under the direction of the Bank's Fatwa and Shareea'a Supervisory Board. Such Zakat is charged to voluntary reserve.

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 2011 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 2011, 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 2011 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 2011.

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 & TOUCHE
AL-FAHAD, AL WAZZAN & CO.

15 February 2012
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2011

	Notes	KD 000's 2011	KD 000's 2010	USD 000's 2011	USD 000's 2010
INCOME					
Financing income		523,964	517,573	1,881,041	1,858,097
Investment income	3	188,193	92,287	675,617	331,312
Fee and commission income		55,948	65,211	200,854	234,109
Gain of foreign currencies		3,742	3,111	13,434	11,169
Other income	4	100,235	58,117	359,846	208,641
		872,082	736,299	3,130,792	2,643,328
EXPENSES					
Staff costs		124,339	114,131	446,379	409,733
General and administrative expenses		101,760	91,306	365,320	327,790
Finance costs		53,780	44,871	193,071	161,088
Depreciation		79,383	48,186	284,987	172,989
Impairment	5	321,297	198,633	1,153,463	713,096
		680,559	497,127	2,443,220	1,784,696
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		191,523	239,172	687,572	858,632
Distribution to depositors		152,730	162,866	548,304	584,692
PROFIT AFTER DISTRIBUTION		38,793	76,306	139,268	273,940
Contribution to Kuwait Foundation for the Advancement of Sciences		820	1,105	2,944	3,967
National Labor Support tax		591	2,582	2,122	9,269
Zakat (based on Zakat Law No. 46/2006)		17	679	61	2,438
Directors' fees	22	260	160	933	574
PROFIT FOR THE YEAR		37,105	71,780	133,208	257,692
Attributable to:					
Equityholders of the Bank		80,342	105,983	288,430	380,481
Non-controlling interests		(43,237)	(34,203)	(155,222)	(122,789)
		37,105	71,780	133,208	257,692
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	6	30.2 fils	39.9 fils	10.8 Cents	14.3 Cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	KD 000's 2011	KD 000's 2010	USD 000's 2011	USD 000's 2010
Profit before distribution to depositors		191,523	239,172	687,572	858,632
Other comprehensive income (loss)					
Change in fair value of financial assets available for sale	18	(29,497)	(32,447)	(105,895)	(116,485)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	18	(154)	2,973	(553)	10,673
Loss realised on financial assets available for sale during the year	18	4,957	6,069	17,796	21,788
Impairment losses transferred to the consolidated statement of income	18	53,934	16,930	193,624	60,779
Share of other comprehensive income (loss) of associates	18	756	(2,927)	2,714	(10,508)
Exchange differences on translation of foreign operations	19	(85,303)	2,967	(306,239)	10,652
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		(55,307)	(6,435)	(198,553)	(23,101)
Total comprehensive income before estimated distribution to depositors		136,216	232,737	489,019	835,531

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

		KD 000's		USD 000's	
	Notes	2011	2010	2011	2010
ASSETS					
Cash and balances with banks and financial institutions	7	619,554	447,585	2,224,211	1,606,839
Short-term murabahas		1,478,052	1,597,372	5,306,236	5,734,597
Receivables	8	5,864,821	5,545,915	21,054,824	19,909,944
Trading properties		273,686	221,226	982,538	794,206
Leased assets	9	1,422,442	1,272,703	5,106,595	4,569,029
Financial assets available for sale	10	1,302,177	1,183,050	4,674,841	4,247,173
Investment in associates	11	490,062	339,307	1,759,332	1,218,119
Investment properties	12	536,358	561,377	1,925,536	2,015,355
Other assets	13	705,551	629,293	2,532,942	2,259,174
Property and equipment	14	767,130	750,671	2,754,012	2,694,924
TOTAL ASSETS		13,459,833	12,548,499	48,321,067	45,049,360
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY					
LIABILITIES					
Due to banks and financial institutions	15	1,818,636	2,211,580	6,528,939	7,939,616
Depositors' accounts	16	8,881,845	7,649,082	31,885,999	27,460,357
Other liabilities	17	681,673	602,135	2,447,220	2,161,675
TOTAL LIABILITIES		11,382,154	10,462,797	40,862,158	37,561,648
DEFERRED REVENUE		608,475	515,874	2,184,437	1,851,998
FAIR VALUE RESERVE	18	(13,003)	(42,999)	(46,681)	(154,367)
FOREIGN EXCHANGE TRANSLATION RESERVE	19	(74,805)	10,498	(268,551)	37,688
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK					
Share capital	20	268,904	248,985	965,371	893,861
Share premium		464,766	464,766	1,668,519	1,668,519
Proposed issue of bonus shares	22	21,512	19,919	77,229	71,510
Treasury shares	20	(46,813)	(26,722)	(168,060)	(95,933)
Reserves	21	544,361	534,078	1,954,267	1,917,351
		1,252,730	1,241,026	4,497,326	4,455,308
Proposed cash dividend	22	39,623	49,304	142,247	177,002
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		1,292,353	1,290,330	4,639,573	4,632,310
Non-controlling interests		264,659	311,999	950,131	1,120,083
TOTAL EQUITY		1,557,012	1,602,329	5,589,704	5,752,393
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		13,459,833	12,548,499	48,321,067	45,049,360

SAMIR YAQOOB AL NAFISI
(CHAIRMAN)

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 2011

KD 000's

	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		
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 (Note 20)	-	-	-	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
Issue of bonus shares	19,919	-	(19,919)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(10,413)	-	-	(10,413)	-	(10,413)	-	(10,413)	-	(10,413)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(49,304)	(49,304)	-	(49,304)
Cancellation of share option	-	-	-	-	-	-	5	-	5	-	5	-	5	-	5
Profit for the year	-	-	-	-	-	-	-	-	-	80,342	80,342	-	80,342	(43,237)	37,105
Distribution of profit:															-
Proposed issue of bonus shares	-	-	21,512	-	-	-	-	-	-	(21,512)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(39,623)	(39,623)	39,623	-	-	-
Transfer to statutory reserve	-	-	-	-	8,203	-	-	-	8,203	(8,203)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	11,004	-	-	11,004	(11,004)	-	-	-	-	-
Net movement in treasury shares (Note 20)	-	-	-	(20,091)	-	-	-	-	-	-	(20,091)	-	(20,091)	-	(20,091)
Profit on sale of treasury shares	-	-	-	-	-	-	-	1,484	1,484	-	1,484	-	1,484	-	1,484
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,103)	(4,103)
At 31 December 2011	268,904	464,766	21,512	(46,813)	262,491	270,950	4,244	6,676	544,361	-	1,252,730	39,623	1,292,353	264,659	1,557,012

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2011

		KD 000's		USD 000's	
	Note	*2011*	*2010*	*2011*	*2010*
OPERATING ACTIVITIES					
Profit for the year		37,105	71,780	133,208	257,692
Adjustment for:					
Depreciation		79,383	48,186	284,987	172,989
Impairment		321,297	198,633	1,153,463	713,096
Dividend income		(10,428)	(9,319)	(37,437)	(33,455)
Loss (gain) on part sale of associates		129	(87)	463	(312)
Gain on sale of financial assets available for sale		(15,364)	(1,632)	(55,157)	(5,859)
Sukook income		(16,061)	(9,004)	(57,659)	(32,325)
Gain on cancellation of aircraft contract		(29,980)	(19,694)	(107,629)	(70,702)
Gain on sale of exploration assets		-	(24,516)	-	(88,013)
Share of loss of associates		2,305	57,492	8,275	206,397
Other investment income		(7,310)	(19,385)	(26,243)	(69,593)
		361,076	292,454	1,296,271	1,049,915
Changes in operating assets and liabilities					
(Increase) decrease in operating assets:					
Receivables		(572,922)	(586,985)	(2,056,801)	(2,107,288)
Trading properties		(66,264)	(146,567)	(237,889)	(526,178)
Leased assets		(148,395)	(5,240)	(532,741)	(18,812)
Other assets		(115,890)	(94,341)	(416,047)	(338,686)
Increase (decrease) in operating liabilities:					
Due to banks and financial institutions		(392,944)	750,655	(1,410,677)	2,694,866
Depositors' accounts		1,232,763	387,254	4,425,644	1,390,250
Other liabilities		73,916	55,879	265,360	200,607
Net cash from operating activities		371,340	653,109	1,333,120	2,344,674
INVESTING ACTIVITIES					
Purchase of financial assets available for sale, net		(322,641)	(147,327)	(1,158,288)	(528,907)
Purchase of investment properties		(125,447)	(128,608)	(450,357)	(461,705)
Proceeds from sale of investment properties		128,002	83,654	459,530	300,320
Purchase of property and equipment		(153,139)	(243,313)	(549,772)	(873,498)
Proceeds from sale of property and equipment		82,519	39,370	296,245	141,339
Purchase of investments in associates		(14,902)	(22,899)	(53,498)	(82,208)
Proceeds from sale of investments in associates		9,451	20,876	33,929	74,945
Sukook income received		16,061	9,004	57,659	32,325
Cash proceeds from cancellation of aircraft contracts		29,980	20,067	107,629	72,041
Proceeds from sale of exploration assets		-	34,911	-	125,331
Dividend income received		13,155	11,848	47,227	42,535
Net cash used in investing activities		(336,961)	(322,417)	(1,209,696)	(1,157,482)
FINANCING ACTIVITIES					
Cash dividends paid		(49,304)	(56,857)	(177,002)	(204,118)
Cash received on cancellation of share options		5	2	18	7
Payment of Zakat		(11,092)	(11,349)	(39,820)	(40,743)
Net movement in treasury shares		(18,607)	10,734	(66,799)	38,536
Net cash used in financing activities		(78,998)	(57,470)	(283,603)	(206,318)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(44,619)	273,222	(160,179)	980,874
Cash and cash equivalents at 1 January		1,519,915	1,246,693	5,456,525	4,475,652
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	1,475,296	1,519,915	5,296,346	5,456,526

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

Notes to the Consolidated Financial Statements at 31 December 2011

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2011 were authorized for issue by the Chairman on 15 February 2012 in accordance with a resolution of the Bank's Board of Directors on 15 January 2012 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 23. 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 54 local branches (2010: 52) and employed 2,278 employees as of 31 December 2011 (2010: 2,153) of which 1,423 (2010: 1,327) are Kuwaiti nationals representing 62% (2010: 62%) of the Bank's total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 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 are prepared under the historical cost convention modified to include the measurement at fair value of financial assets available for sale, precious metals inventory, currency swaps, profit rate swaps, commodity forward and forward foreign exchange contracts.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand Dinars, except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES

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 recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

- IAS 24 *Related Party Disclosures (Amendment) effective 1 January 2011*
- IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment) effective 1 February 2010*
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment) effective 1 January 2011*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010*
- Improvements to IFRSs (May 2010)

IAS 24 Related Party Disclosures (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have such types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements in the State of Kuwait; therefore, the amendment of the interpretation has had no effect on the financial position or the performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
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. The amendment of the interpretation has had no effect on the financial position or the performance of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Improvements to IFRSs

The IASB issued its third omnibus of amendments to its standards in May 2010, 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 no impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised IASB Standards, IFRSs and IFRIC Interpretations 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 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendment becomes effective for annual periods beginning on or after 1 July 2012. It changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated statement of income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. 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.

IFRS 10 Consolidated Financial Statements

This standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" that addresses the accounting for consolidated financial statements. The standard establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 "Interests in Joint Ventures". The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard has no significant effect on the financial position or performance of the Group.

IFRS 12 Disclosure of Involvement with Other Entities

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.

IFRS 13 Fair Value Measurement

The standard becomes effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

The amendment becomes effective for annual periods beginning on or after 1 January 2013. As a consequence of the new

IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. The standard has no effect on the financial position or performance of the Group.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2011 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 23. 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 owners of the group and 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:

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

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 swaps and profit rate contracts 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 recognized 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

i) Financing income is income from murabaha, istisna'a and wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortized 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 murabahas, international murabahas, 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 capitalized 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.

Capitalized 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.

Financial assets available for sale

Financial assets available for sale 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.

Financial assets available for sale are initially recognized at cost (including transaction costs associated with the acquisition of the investment) and after initial measurement, financial assets available for sale are subsequently measured at fair value unless fair value cannot be reliably determined. Changes in fair value of financial assets available for sale are reported in other comprehensive income until the investment is derecognized, 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 amortized 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 recognizes its share of any changes and discloses this, when applicable, in the statement of changes in other comprehensive income. Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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 recognize 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 recognizes the amount in the impairment in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes 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 derecognized 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 amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized 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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)
Intangible assets with indefinite useful lives are not amortized, 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 derecognized.

Precious metals inventory
Precious metals inventory primarily comprises Gold and is carried at the market price.

Trade receivable
Trade receivables 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 13).

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 for aircraft)
- 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 reorganization 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 amortized cost
For financial assets carried at amortized 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.

Financial assets available for sale
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 financial assets 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 amortized 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, 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;
- 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. 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 net payments less the unamortized premium, is charged to the consolidated statement of income.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity 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.

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 unrealized gain or loss from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealized gains) are included in other assets and the instruments with negative market values (unrealized losses) are included in accounts payable and accruals in the consolidated statement of financial position.

The resultant gains and losses from the instruments 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 unrecognized firm commitment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (continued)

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 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.

Embedded swaps and profit rate contracts

Embedded swaps and profit rate instruments (the forwards) are separated from the host contract if the economic characteristics and risks of the forwards are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the forwards would meet the definition of a derivative and the hybrid instrument is not measured at fair value with changes in fair value recognised in the consolidated statement of income.

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.

Financial assets available for sale

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 financial assets 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.

Financial assets 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.

Zakat
In accordance with the Bank's Fatwa and Shareea'a Supervisory Board approval held on 20 December 2011, the Bank has changed Zakat based calculation from reserve method to net working capital method. Accordingly the Bank calculates Zakat at 2.577% on net working capital on completing fiscal year and is paid under the direction of the Bank's 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 is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

Prior to 1 January 2005, the Group treated goodwill, and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition, as assets and liabilities of the parent. Therefore, those assets and liabilities are already expressed in the functional currency or are non-monetary items and no further translation differences occur.

Group companies
On consolidation the assets and liabilities of foreign operations are translated into Kuwait Dinar at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is 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 spot rate of exchange at the reporting date.

Trade payable
Trade payable relates to non financial subsidiaries of the Group. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial assets available for sale
The Group treats financial assets 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 10). 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 0.278550 per USD which represents the midmarket rate at 31 December 2011.

3 INVESTMENT INCOME

	KD 000's	
	2011	*2010*
Gain on sale of real estate	97,079	51,200
Rental income from investment properties	14,405	14,942
Dividend income	10,428	9,319
(Loss) gain on part sale of associates	(129)	87
Gain on sale of financial assets available for sale	15,364	1,632
Share of loss of associates (Note 11)	(2,305)	(57,492)
Sukook income	16,061	9,004
Gain on cancellation of aircraft contract	29,980	19,694
Gain on sale of exploration assets	-	24,516
Other investment income	7,310	19,385
	188,193	92,287

4 OTHER INCOME

	KD 000's	
	2011	*2010*
Sale of property and equipment	20,163	10,491
Maintenance, services, and consultancy	27,374	18,390
Rental income from operating lease	7,255	6,879
Credit tax income	16,240	9,585
Discount on trade payables	4,619	3,384
Real estate development and construction	6,250	3,232
Other income	18,334	6,156
	100,235	58,117

5 IMPAIRMENT

	KD 000's	
	2011	2010
Relating to receivables:		
International murabahas	17,763	24,604
Local murabahas and wakala	154,533	95,875
Istisna'a and other receivables	544	(6,958)
	172,840	113,521
(Reversal of) Impairment of leased assets (Note 9)	(1,345)	20,603
Impairment of financial assets available for sale	95,770	24,446
Impairment of associates	1,310	8,847
(Reversal of) impairment of investment properties (Note 12)	(2,601)	4,629
Write down to net realizable value of trading properties	13,804	-
Impairment of property and equipment (Note 14)	1,732	9,465
Impairment of goodwill	-	6,342
Impairment of unfunded facility	2,044	5,022
Impairment of advance for purchase of real estate	27,624	-
Impairment of other assets	10,119	5,758
	321,297	198,633

6 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.

	2011	*2010*
Profit for the year attributable to the equityholders of the Bank (KD thousands)	80,342	105,983
Weighted average number of shares outstanding during the year (thousand shares)	2,656,381	2,657,098
Basic and diluted earnings per share (fils)	30.2	39.9

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 14 March 2011 (see note 22).

7 CASH AND CASH EQUIVALENTS

		KD 000's
	2011	*2010*
Cash	91,990	58,125
Balances with Central Banks	239,103	153,048
Balances with banks and financial institutions - current accounts	192,377	223,860
Balances with banks and financial institutions - exchange of deposits	96,084	12,552
Cash and balances with banks and financial institutions	619,554	447,585
Short-term murabaha - maturing within 3 months of contract date	757,733	802,268
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	98,009	270,062
Cash and cash equivalents	1,475,296	1,519,915

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:

		KD 000's
	2011	*2010*
Due from banks and financial institutions	409,434	222,726
Due to banks and financial institutions	(321,707)	(210,174)
	87,727	12,552

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

		KD 000's
	2011	*2010*
In assets:		
Cash and balances with banks and financial institutions - exchange of deposits	96,084	12,552
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 15)	(8,357)	-
	87,727	12,552

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

8 RECEIVABLES

Receivables principally comprise murabaha, wakala and istisna'a balances and are stated net of impairment as follows:

	KD 000's	
	2011	*2010*
International commodity murabahas	1,934,619	1,503,381
Local murabahas and wakala	4,283,598	4,343,583
Istisna'a and other receivables	153,632	184,806
	6,371,849	6,031,770
Less: impairment	(507,028)	(485,855)
	5,864,821	5,545,915

The distribution of receivables is as follows:

	KD 000's	
	2011	*2010*
Industry sector		
Trading and manufacturing	1,330,017	1,201,153
Banks and financial institutions	1,987,245	1,847,217
Construction and real estate	1,789,029	1,667,775
Other	1,265,558	1,315,625
	6,371,849	6,031,770
Less: impairment	(507,028)	(485,855)
	5,864,821	5,545,915

	KD 000's	
	2011	*2010*
Geographic region		
Middle East	4,094,560	3,925,831
Western Europe	67,392	122,800
Other	2,209,897	1,983,139
	6,371,849	6,031,770
Less: impairment	(507,028)	(485,855)
	5,864,821	5,545,915

8 RECEIVABLES (continued)

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

	Specific		General		Total	
						KD 000's
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
Balance at beginning of year	353,695	203,305	132,160	164,823	485,855	368,128
Provided (reversed) during the year	40,146	144,655	132,694	(31,134)	172,840	113,521
Amounts written off; net of foreign currency translation	(149,822)	5,735	(1,845)	(1,529)	(151,667)	4,206
Balance at end of year	244,019	353,695	263,009	132,160	507,028	485,855
International murabahas	85,933	91,118	16,556	14,317	102,489	105,435
Local murabahas and wakalas	140,816	237,945	243,324	114,845	384,140	352,790
Istisna'a and other receivables	17,270	24,632	3,129	2,998	20,399	27,630
	244,019	353,695	263,009	132,160	507,028	485,855

Non performing cash and non-cash financing facilities

At 31 December 2011, the Bank's non-performing finance facilities including receivables, leased assets and non cash facilities amounted to KD 721,528 thousand (2010: KD 910,855 thousand), KD 688,199 thousand (2010: KD 871,868 thousand) after excluding deferred revenue and suspended profit and KD 542,759 thousand (2010: KD 687,153 thousand) after excluding eligible collateral in accordance with CBK regulations for specific provision calculation.

			KD 000's
	Pre-invasion	*Post liberation*	*Total*
2011			
Finance facilities	14	721,514	721,528
Impairment	14	275,460	275,474
2010			
Finance facilities	6,253	904,602	910,855
Impairment	6,253	386,346	392,599

The provision charged (released) for the year on non-cash facilities is KD 2,044 thousand (2010: KD 5,022 thousand). The available provision on non-cash facilities of KD 13,386 thousand (2010: KD 11,340 thousand) is included under other liabilities (Note 17).

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.

9 LEASED ASSETS

The net investment in leased assets comprises the following:

	2011	*2010*
		KD 000's
Gross investment	1,513,612	1,359,875
Less: unearned revenue	(40,511)	(31,597)
impairment	(50,659)	(55,575)
	1,422,442	1,272,703

Impairment on leased assets is as follows:

	Specific		*General*		*Total*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
						KD 000's
Balance at beginning of year	34,516	15,233	21,059	18,763	55,575	33,996
(Reversed) provided during the year	(3,100)	18,550	1,755	2,053	(1,345)	20,603
Write off; net of foreign currency translation	(3,441)	733	(130)	243	(3,571)	976
Balance at end of year	27,975	34,516	22,684	21,059	50,659	55,575

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

	2011	*2010*
		KD 000's
Within one year	966,671	882,900
One to five year	332,130	320,209
After five years	214,811	156,766
	1,513,612	1,359,875

The unguaranteed residual value of the leased assets at 31 December 2011 is estimated at KD 41,393 thousand (2010: KD 48,720 thousand).

The fair value of leased assets at 31 December 2011 is KD 2,117,277 thousand (2010: KD 1,693,358 thousand).

10 FINANCIAL ASSETS AVAILABLE FOR SALE

	2011 KD 000's	2010 KD 000's
Quoted equity investments	54,912	61,309
Unquoted equity investments	263,346	304,287
Managed portfolios (mainly comprising quoted equity investments)	247,444	252,057
Mutual funds	272,576	184,053
Sukook	463,899	381,344
	1,302,177	1,183,050
Financial assets available for sale carried at fair value	854,230	807,049
Financial assets available for sale carried at cost less impairment	447,947	376,001
	1,302,177	1,183,050

Included in managed portfolios is an amount of KD 35,557 thousand (2010: KD 35,425 thousand) which represents the Group's investment in 34,115 thousand shares (2010: 30,533 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.27% of the total issued share capital at 31 December 2011 (2010: 1.23%). 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 financial assets available for sale 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.

KD 000's

	Level 1	Level 2	Level 3	Total
31 December 2011				
Quoted equity investments	54,912	-	-	54,912
Unquoted equity investments	-	-	81,441	81,441
Managed portfolios (mainly comprising quoted equity investments)	205,336	10,308	17,967	233,611
Mutual funds	-	15,705	111,081	126,786
Sukook	302,581	54,899	-	357,480
	562,829	80,912	210,489	854,230
31 December 2010				
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

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.

No transfers have been made between levels of hierarchy.

11 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2011	*2010*			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	28	28	Kuwait	Islamic Takaful insurance	30 September 2011
Gulf Investment House K.S.C. (Closed)	20	20	Kuwait	Islamic investments	30 September 2011
Sharjah Islamic Bank P.J.S.C.	20	20	United Arab Emirates	Islamic banking services	30 September 2011
First Investment Company K.S.C. (Closed)	9	9	Kuwait	Islamic investments	30 September 2011
Specialties Group Holding Company K.S.C. (Closed)	30	30	Kuwait	Holding investments	30 September 2011
Indirect investments in associates held through consolidated subsidiaries					
Diyar Al Muharraq W.L.L	52	-	Bahrain	Real estate development	31 December 2011
Sukook Real Estate Development Company K.S.C. (Closed)	49	49	Kuwait	Real estate development	30 September 2011
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	25	25	Kuwait	Real estate projects management	30 September 2011
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2011
Yiaco Medical Company K.S.C. (Closed)	25	33	Kuwait	Medical, chemical, and dental products & equipment	30 September 2011

The Group's investment in First Investment Company has been classified as investment in associates as the Group has the ability to exercise significant influence over the operation of this company through representation on the Board of Directors of this company. Diyar Al Muharraq W.L.L is accounted for as an associate as the Group does not exercise control over this entity – it was previously classified as financial assets available for sale.

	KD 000's	
	2011	*2010*
Share of associates' assets and liabilities:		
Assets	1,007,215	792,023
Liabilities	(564,798)	(502,288)
Net assets	442,417	289,735

	KD 000's	
	2011	*2010*
Share of associates' revenue and results:		
Revenue	92,818	24,131
Results	(2,305)	(57,492)
Capital Commitments	51,584	29,678

Investments in associates with a carrying amount of KD 165,720 thousand (2010: KD 157,241 thousand) have a market value of KD 82,973 thousand at 31 December 2011 (2010: KD 74,811 thousand) based on published quotes. The remaining associates with a carrying value of KD 324,342 thousand (2010: KD 182,066 thousand) are unquoted companies. The carrying amount of investments in associates includes goodwill of KD 47,645 thousand (2010: KD 49,572 thousand).

12 INVESTMENT PROPERTIES

	KD 000's	
	2011	2010
At 1 January	561,377	506,464
Purchases	125,447	128,608
Transfer from property and equipment (Note 14)	5,087	825
Disposals	(136,287)	(67,943)
Depreciation charged for the year	(21,867)	(1,948)
Impairment losses reversed (charged) for the year (Note 5)	2,601	(4,629)
At 31 December	536,358	561,377

	KD 000's	
	2011	2010
Developed properties	357,896	377,343
Properties under construction	182,304	190,477
	540,200	567,820
Less: Impairment in value	(3,842)	(6,443)
	536,358	561,377

Investment properties with carrying value of KD 54,451 thousand (2010: KD 47,325 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 45,043 thousand (2010: KD 42,583 thousand).

The fair value of investment properties at the financial position date is KD 642,381 thousand (2010: KD 610,870 thousand).

13 OTHER ASSETS

	KD 000's	
	2011	2010
Trade receivable (Non banking subsidiaries)	149,254	194,292
Precious metals inventory	170,890	51,620
Goodwill	46,291	44,163
Other intangible asset	37,893	40,468
Advances in investment purchases	1,696	33,580
Advances for purchase investment securities	29,466	-
Deferred tax	15,825	16,972
Miscellaneous other assets	254,236	248,198
	705,551	629,293

14 PROPERTY AND EQUIPMENT

							KD 000's
	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	*2011 Total*
Cost							
At 1 January 2011	21,948	87,255	659,382	136,274	37,987	27,094	969,940
Additions	4,248	1,300	73,508	43,977	14,762	15,344	153,139
Disposals	(7,790)	(13,352)	(34,503)	(20,680)	(14,881)	(4,627)	(95,833)
Transfer to investment properties (Note 12)	-	-	-	-	-	(5,087)	(5,087)
At 31 December 2011	18,406	75,203	698,387	159,571	37,868	32,724	1,022,159
Accumulated depreciation							
At 1 January 2011	-	36,762	87,665	84,598	10,244	-	219,269
Depreciation charge for the year	-	2,396	27,038	23,336	4,746	-	57,516
Relating to disposals	-	(161)	(7,780)	(10,076)	(5,471)	-	(23,488)
Impairment loss charged (reversed) for the year (Note 5)	-	-	(946)	2,678	-	-	1,732
At 31 December 2011	-	38,997	105,977	100,536	9,519	-	255,029
Net carrying amount							
At 31 December 2011	18,406	36,206	592,410	59,035	28,349	32,724	767,130

14 PROPERTY AND EQUIPMENT (continued)

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	*2010 Total*
Cost							
At 1 January 2010	22,790	74,905	488,071	132,228	57,192	29,992	805,178
Additions	(2)	15,001	184,053	22,940	13,206	8,115	243,313
Disposals	(840)	(2,651)	(12,742)	(18,894)	(32,411)	(10,188)	(77,726)
Transfer to investment properties (Note 12)	-	-	-	-	-	(825)	(825)
At 31 December 2010	21,948	87,255	659,382	136,274	37,987	27,094	969,940
Accumulated depreciation							
At 1 January 2010	-	36,928	66,048	76,778	23,818	-	203,572
Depreciation charge for the year	-	2,644	22,488	14,087	7,019	-	46,238
Relating to disposals	-	(2,810)	(10,336)	(6,267)	(20,593)	-	(40,006)
Impairment loss charged (reversed) for the year (Note 5)	-	-	9,465	-	-	-	9,465
At 31 December 2010	-	36,762	87,665	84,598	10,244	-	219,269
Net carrying amount							
At 31 December 2010	21,948	50,493	571,717	51,676	27,743	27,094	750,671

Included in property and equipment are the head office building and all branches of the Bank. 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 497,798 thousand (2010: KD 432,649 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender (Note 15). The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 26% (2010: 29%) 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 46,857 thousand (2010: KD 42,538 thousand).

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 244,317 thousand (2010: KD 248,820 thousand) and is receivable as follows:

	KD 000's	
	2011	*2010*
Income receivable within one year	48,439	44,650
Income receivable within one year to five years	141,521	141,892
Income receivable after five years	54,357	62,278
	244,317	248,820

15 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	KD 000's	
	2011	*2010*
Current accounts	13,127	1,627
Exchange of Deposits	8,357	-
Murabaha payable	1,388,326	1,847,002
Sukook payable	23,691	24,638
Obligations under finance leases (Note 14)	385,135	338,313
	1,818,636	2,211,580

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

Property and equipment include 46 aircraft acquired by a subsidiary under finance leases denominated in US Dollars: 9 aircraft with finance lease obligations maturing within 5 years and 37 aircraft with lease obligations maturing after 5 years. The obligations under finance leases are secured by the aircraft (Note 14). The installments payable within one to five years are KD 192,069 thousand and installments payable after 5 years are KD 188,914 thousand.

16 DEPOSITORS' ACCOUNTS

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

1) 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.

2) Investment deposits comprise Khumasia, 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 100% of investment deposits for unlimited period ("Khumasia"), 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Sedra") and 60% of investment saving 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:

	2011	*2010*
	% per annum	*% per annum*
Investment deposits - ("Khumasia")	1.920	-
Investment deposits - ("Mustamera")	1.728	2.378
Investment deposits - ("Sedra")	1.344	1.850
Investment savings accounts ("Tawfeer")	1.152	1.585

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

17 OTHER LIABILITIES

	2011	2010
	KD 000's	
Trade payables (Non banking subsidiaries)	190,073	211,095
Accrued expenses	100,277	90,073
Certified cheques	139,925	84,169
Employees' end of service benefits	35,787	42,098
Letter of guarantee covered	32,906	41,650
Maintenance reserve	24,582	15,850
Refundable deposits	12,005	12,696
Provision on non cash facilities	13,386	11,340
Due to customers for contract work	59,330	7,143
Others	73,402	86,021
	681,673	602,135

18 FAIR VALUE RESERVE

Changes in the fair value of financial assets available for, currency swaps, profit rate swaps and forward 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.

				KD 000's
	2011			*2010*
	Financial assets Available for sale	*Currency swaps, profit rate swaps and forward foreign exchange contracts*	*Total*	*Total*
Balance at 1 January	(43,528)	529	(42,999)	(33,597)
Change in fair value of financial assets available for sale	(29,497)	-	(29,497)	(32,447)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	-	(154)	(154)	2,973
Loss realized on financial assets available for sale during the year	4,957	-	4,957	6,069
Impairment loss transferred to consolidated statement of income	53,934	-	53,934	16,930
Share of other comprehensive income (loss) of associates	756	-	756	(2,927)
Balance at 31 December	(13,378)	375	(13,003)	(42,999)

19 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.

20 SHARE CAPITAL

Share capital

	KD 000's	
	2011	2010
Authorized, issued and fully paid :		
2,689,040,671 (2010: 2,489,852,474) shares of 100 fils each	268,904	248,985

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

	2011	2010
Number of shares in issue 1 January	2,489,852,474	2,305,418,958
Bonus issue	199,188,197	184,433,516
Number of shares in issue 31 December	2,689,040,671	2,489,852,474

Treasury shares and treasury share reserve.

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

	2011	2010
Number of treasury shares	47,520,217	24,665,000
Treasury shares as a percentage of total shares in issue	1.77%	0.99%
Cost of treasury shares (KD)	46,813,324	26,722,320
Market value of treasury shares (KD)	42,292,993	28,611,400

Movement in treasury shares was as follows:

	KD 000's		No. of shares	
	2011	2010	2011	2010
Balance as at 1 January	26,722	36,662	24,665,000	31,127,500
Purchases	32,374	17,627	32,877,500	16,030,000
Bonus issue	-	-	1,505,217	2,490,617
Sales	(12,283)	(27,567)	(11,527,500)	(24,983,117)
Balance as at 31 December	46,813	26,722	47,520,217	24,665,000

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

21 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 8,203 thousand equivalent to approximately 10% (2010: KD 11,051 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 to reach KD 262,491 thousand (2010: KD 254,288 thousand).

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.

21 RESERVES (continued)

An amount of KD 11,004 thousand equivalent to 13% (2010: KD 25,709 thousand equivalent to 23%) 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 to reach KD 270,950 thousand (2010: KD 270,359 thousand).

The share premium balance is not available for distribution.

22 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 15% for the year ended 31 December 2011 (2010: 20%) and issuance of bonus shares of 8% (2010: 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 260 thousand (2010: 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.

23 SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %*		*Principal activities*	*Financial statements reporting date*
		2011	*2010*		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2011
KFH Private Equity Ltd.	Cayman	100	100	Islamic investments	30 September 2011
KFH Financial Service Ltd.	Cayman	100	100	International Real Estate Development and investments	30 September 2011
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2011
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate development and leasing	31 October 2011
Development Enterprises Holding Company K.S.C.	Kuwait	100	100	Infrastructure and industrial investments	30 September 2011
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real Estate development and investment	30 September 2011
Liquidity Management House K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2011
Saudi Kuwaiti Finance House S. S. C. (Closed)	Saudi Arabia	100	100	Islamic Investment	30 September 2011
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy, and software services	30 September 2011
Kuwait Finance House B.S.C.	Bahrain	93	93	Islamic banking services	30 November 2011
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	30 September 2011
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	53	53	Aircraft leasing and financing services	30 September 2011
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2011
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	50	50	Real estate, investment, trading and real estate management	31 October 2011

24 CONTINGENCIES AND CAPITAL 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:

	KD 000's	
	2011	*2010*
Acceptances and letters of credit	142,951	166,617
Letter of Guarantees	994,683	1,056,805
Contingent liabilities	1,137,634	1,223,422
Capital commitments	1,544,753	1,337,272

25 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY 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.

Embedded swaps and profit rate contracts are balances with banks and financial institutions with rates of return tied to changes in value of precious metals.

At 31 December 2011, 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.

						KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity*		
				Within 3 months	*3 to 12 months*	*More than 12 months*
31 December 2011						
Cash flow hedges						
Forward contracts	20	441	62,290	36,177	26,113	-
Profit rate swaps	215	90	10,237	-	-	10,237
Currency swaps	786	115	28,005	-	-	28,005
	1,021	646	100,532	36,177	26,113	38,242
Not designated as hedges						
Forward contracts	11,108	8,599	468,102	373,956	94,146	-
Profit rate swaps	2,123	1,586	28,122	-	-	28,122
Currency swaps	1,485	1,533	26,287	-	-	26,287
Embedded precious metals	-	1,338	174,600	166,188	8,389	23
	14,716	13,056	697,111	540,144	102,535	54,432
	15,737	13,702	797,643	576,321	128,648	92,674

25 CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS (continued)

						KD 000's
	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity*		
				Within 3 months	*3 to 12 months*	*More than 12 months*
31 December 2010						
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

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:

				KD 000's
	Notional amount	*Within 3 months*	*3 to 12 months*	*More than 12 months*
31 December 2011				
Cash inflows	759,285	576,322	128,648	54,315
Cash outflows	(756,627)	(572,449)	(130,434)	(53,744)
Net cash flows	2,658	3,873	(1,786)	571
31 December 2010				
Cash inflows	425,495	279,025	92,638	53,832
Cash outflows	(430,408)	(284,145)	(93,135)	(53,128)
Net cash flows	(4,913)	(5,120)	(497)	704

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

26 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:

						KD 000's
	Major shareholders	*Associates*	*Board Members and Executive Officers*	*Other related parties*	*Total 2011*	*Total 2010*
Related parties						
Receivables	2,995	71,151	10,947	83,961	169,054	143,195
Due to banks and financial institutions	535,055	-	-	15,288	550,343	763,496
Depositors' accounts	35,929	14,435	6,611	27,728	84,703	85,758
Commitments and contingencies	885	4,422	14	4,950	10,271	8,010

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*		KD 000's	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
Board Members						
Finance facilities	4	4	1	3	8,086	2,201
Credit cards	4	6	-	-	38	38
Deposits	24	28	31	51	5,086	5,421
Collateral against financing facilities	3	3	-	-	8,357	3,216
Executive officers						
Finance facilities	11	18	5	3	4,773	3,086
Credit cards	9	10	3	4	26	26
Deposits	22	27	51	65	4,122	4,488
Collateral against finance facilities	8	8	3	1	6,921	3,364

Compensation of chairman, board members and key management personnel are as follows:

		KD 000's
	2011	*2010*
Short-term benefits	10,153	11,076
Termination benefits	652	592
	10,805	11,668

27 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.

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.

					KD 000's
	Treasury	*Investment*	*Banking*	*Other*	*Total*
31 December 2011					
Total assets	3,702,832	3,442,540	4,915,332	1,399,129	13,459,833
Total liabilities	2,044,983	143,117	8,746,134	447,920	11,382,154
Income	55,315	112,568	551,938	152,261	872,082
Impairment	560	(112,343)	(198,095)	(11,419)	(321,297)
Finance costs	(29,083)	(13,236)	-	(11,461)	(53,780)
Profit before distribution to depositors	41,431	(68,886)	193,481	25,497	191,523
31 December 2010					
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)
Finance costs	(27,486)	(8,002)	-	(9,383)	(44,871)
Profit before distribution to depositors	26,918	(3,998)	197,145	19,107	239,172

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

KD 000's

	Assets		*Liabilities*		*Contingencies and capital commitments*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
Geographical areas:						
The Middle East	9,395,665	8,507,487	8,419,842	7,747,858	411,279	437,671
North America	243,756	217,323	78,986	36,957	326,136	566,635
Western Europe	501,791	541,906	411,247	421,490	917,048	319,384
Other	3,318,621	3,281,783	2,472,079	2,256,492	1,027,924	1,237,004
	13,459,833	12,548,499	11,382,154	10,462,797	2,682,387	2,560,694

KD 000's

	Local		*International*		*Total*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*
Income	477,179	397,217	394,903	339,082	872,082	736,299
Profit before distribution to depositors	114,250	164,896	77,273	74,276	191,523	239,172

28 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:

KD 000's

	2011	*2010*
Trading and manufacturing	3,036,688	2,611,373
Banks and financial institutions	3,912,080	3,527,637
Construction and real estate	3,682,863	3,726,968
Other	2,828,202	2,682,521
	13,459,833	12,548,499

(b) The distribution of liabilities was as follows:

KD 000's

	2011			*2010*		
	Banking	*Non-banking*	*Total*	*Banking*	*Non-banking*	*Total*
Geographic region						
The Middle East	8,218,084	201,758	8,419,842	7,618,052	129,806	7,747,858
North America	2,296	76,690	78,986	112	36,845	36,957
Western Europe	70,846	340,401	411,247	60,381	361,109	421,490
Other	2,420,439	51,640	2,472,079	2,145,085	111,407	2,256,492
	10,711,665	670,489	11,382,154	9,823,630	639,167	10,462,797

29 FOREIGN CURRENCY EXPOSURE

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

	KD 000's	
	2011	*2010*
	Equivalent Long (short)	Equivalent Long (short)
U.S. Dollars	219,451	301,558
Sterling Pounds	16,663	10,408
Euros	12,058	15,089
Gulf Cooperation Council currencies	507,803	420,966
Others	200,604	217,364

30 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 department
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.

31 CREDIT RISK

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk without taking account of any collateral

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

KD 000's

Gross maximum credit risk exposure	Notes	*2011*	*2010*
Balances with banks and financial institutions		527,565	389,460
Short-term murabaha		1,478,052	1,597,372
Receivables	8	5,864,821	5,545,915
Leased assets	9	1,422,442	1,272,703
Financial assets available for sale – Sukook	10	463,899	381,344
Other assets – trade receivable	13	149,254	194,292
Total		9,906,033	9,381,086
Contingent liabilities	24	1,137,634	1,223,422
Commitments	24	1,544,753	1,337,272
Total		2,682,387	2,560,694
Total credit risk exposure		12,588,420	11,941,780

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 2011 was KD 102,724 thousands (2010: KD 112,518 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:

KD 000's

	2011			*2010*		
	Banking	*Non-banking*	*Total*	*Banking*	*Non-banking*	*Total*
The Middle East	6,510,144	172,220	6,682,364	6,237,177	153,040	6,390,217
North America	49,886	102,610	152,496	45,181	108,579	153,760
Western Europe	103,800	11,672	115,472	153,769	6,276	160,045
Other	2,920,339	35,362	2,955,701	2,634,686	42,378	2,677,064
	9,584,169	321,864	9,906,033	9,070,813	310,273	9,381,086

31 CREDIT RISK (continued)

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

KD 000's

	2011			*2010*		
	Banking	*Non-banking*	*Total*	*Banking*	*Non-banking*	*Total*
Trading and Manufacturing	2,700,120	25,045	2,725,165	2,237,125	35,560	2,272,685
Banks and financial Institutions	2,711,811	73,517	2,785,328	2,414,517	106,851	2,521,368
Construction and real Estate	2,750,949	149,035	2,899,984	2,856,187	65,226	2,921,413
Other	1,421,289	74,267	1,495,556	1,562,984	102,636	1,665,620
	9,584,169	321,864	9,906,033	9,070,813	310,273	9,381,086

Credit quality per class of financial assets

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

KD 000's

	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2011				
Receivables:				
International murabahas	209,570	1,552,453	70,107	1,832,130
Local murabahas and wakala	-	3,346,302	553,156	3,899,458
Istisna'a and other receivables	248	111,434	21,551	133,233
	209,818	5,010,189	644,814	5,864,821
Leased assets (Note 9)	-	1,124,735	297,707	1,422,442
Financial assets available for sale – sukook (Note10)	150,426	271,376	42,097	463,899
	360,244	6,406,300	984,618	7,751,162
31 December 2010				
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 (Note 9)	-	1,172,675	100,028	1,272,703
Financial assets available for sale – sukook (Note10)	131,857	249,487	-	381,344
	290,553	5,892,029	1,017,380	7,199,962

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

KD 000's

	Less than 30 days	*31 to 60 days*	*61 to 90 days*	*Total*
31 December 2011				
Local murabahas	235,400	109,038	48,009	392,447
Istisna'a and other receivables	35,418	250	172	35,840
Leased assets	19,547	45,799	20,502	85,848
	290,365	155,087	68,683	514,135
31 December 2010				
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

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 2011 amounts to KD 252,901 thousand (2010: KD 274,884 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2011 was KD 86,590 thousand (2010: KD 29,179 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

32 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:

	2011 *%*	*2010* *%*
31 December	22	23
Average during the year	22	22
Highest	25	24
Lowest	20	20

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

The maturity profile of assets and undiscounted liabilities at 31 December 2011 is as follows:

KD 000's

	Within 3 months	*3 to 6 Months*	*6 to 12 months*	*After one year*	*Total*
Assets					
Cash and balances with banks and financial institutions	619,554	-	-	-	619,554
Short-term murabaha	1,478,052	-	-	-	1,478,052
Receivables	1,132,623	881,645	1,043,861	2,806,692	5,864,821
Trading properties	1,328	173,534	2,655	96,169	273,686
Leased assets	384,939	285,050	305,186	447,267	1,422,442
Financial assets available for sale	72,484	10,109	62,018	1,157,566	1,302,177
Investments in associates	-	-	-	490,062	490,062
Investment properties	-	-	-	536,358	536,358
Other assets	274,983	32,558	78,377	319,633	705,551
Property and equipment	-	-	-	767,130	767,130
	3,963,963	1,382,896	1,492,097	6,620,877	13,459,833
Liabilities					
Due to banks and financial Institutions	976,204	138,416	216,901	487,115	1,818,636
Depositors' accounts	4,949,100	650,509	284,987	2,997,249	8,881,845
Other liabilities	75,524	93,962	217,718	294,469	681,673
	6,000,828	882,887	719,606	3,778,833	11,382,154

The maturity profile of assets and undiscounted liabilities at 31 December 2010 is as follows:

KD 000's

	Within 3 months	*3 to 6 Months*	*6 to 12 months*	*After one year*	*Total*
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
Financial assets available for sale	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 table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments.

KD 000's

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
2011						
Contingent liabilities	434,224	232,630	228,363	198,797	43,620	1,137,634
Capital Commitments	283,563	655	12,364	37,218	1,210,953	1,544,753
Total	717,787	233,285	240,727	236,015	1,254,573	2,682,387
2010						
Contingent liabilities	510,520	176,420	263,900	231,908	40,674	1,223,422
Capital Commitments	303,113	51,537	139,706	38,420	804,496	1,337,272
Total	813,633	227,957	403,606	270,328	845,170	2,560,694

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

33 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 repricing 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 or pay interest. Changes in interest rates may, however, affect the fair value of financial assets available for sale.

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 2011 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 financial assets available for sale).

KD 000's

	2011			*2010*		
Currency	*Change in currency rate* %	*Effect on profit*	*Effect on fair value reserve*	*Change in currency rate* %	*Effect on profit*	*Effect on fair value reserve*
USD	+1	2,165	3,566	+1	3,015	2,622
GBP	+1	167	236	+1	104	62

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 financial assets available for sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

KD 000's

	2011		*2010*	
	Change in equity price %	*Effect on fair value reserve*	*Change in equity price* %	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	+1	2,920	+1	2,740
Other GCC indices	+1	502	+1	575

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.

34 CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory 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 equityholders 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:

		KD 000's
Capital adequacy	*2011*	*2010*
Risk Weighted Assets	10,399,742	10,003,152
Capital required	1,247,968	1,200,378
Capital available		
Tier 1 capital	1,404,493	1,415,691
Tier 2 capital	23,206	6,772
Total capital	1,427,699	1,422,463
Tier 1 capital adequacy ratio	13.51%	14.15%
Total capital adequacy ratio	13.73%	14.22%

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.

35 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.

36 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. Information about fair values of financial assets and liabilities are disclosed in the respective notes to the consolidated financial statements.

37 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2011 amounted to KD 672,584 thousand (2010: KD 860,261 thousand).

Fees and commission income include fees of KD 2,054 thousand (2010: KD 3,410 thousand) arising from trust and fiduciary activities.