KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

ERNST & YOUNG
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AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE K.S.C.

We have audited the accompanying consolidated balance sheet of Kuwait Finance House K.S.C. (the parent company) and Subsidiaries (the group) as of 31 December 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the parent company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Furthermore, in our opinion proper books of account have been kept by the company and the consolidated financial statements, together with the contents of the report of the 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 Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2005 that might have had a material effect on the business of the group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2005.

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22 January 2006
Kuwait

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005

	Note	*2005* *KD 000's*	*2004* *KD 000's*
OPERATING INCOME			
Murabaha, Istisna'a and leasing income		**189,947**	133,463
Investment income	3	**140,453**	48,293
Fee and commission income		**33,363**	13,933
Net gain from dealing in foreign currencies		**6,214**	1,613
Other operating income		**13,351**	6,304
		383,328	203,606
OPERATING EXPENSES			
Staff costs		**43,292**	27,896
General and administrative expenses		**31,803**	5,149
Depreciation		**15,528**	5,940
Provision for impairment	4	**37,047**	13,664
		127,670	52,649
OPERATING PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		**255,658**	150,957
Distribution to depositors	14	**122,591**	71,476
PROFIT FOR THE YEAR		**133,067**	79,481
Contribution to Kuwait Foundation for the Advancement of Sciences		**1,227**	766
National Labour Support tax		**2,612**	1,294
Directors' fees		**150**	120
NET PROFIT FOR THE YEAR		**129,078**	77,301
Attributable to:			
Equity holders of the bank		**118,687**	74,412
Minority interest		**10,391**	2,889
		129,078	77,301
BASIC EARNINGS PER SHARE	5	**122 fils**	87 fils

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

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Note	*2005* *KD 000's*	*2004* *KD 000's*
ASSETS			
Cash and balances with banks and financial institutions	6	**158,293**	146,161
Short-term international murabaha		**663,848**	380,646
Receivables	7	**2,104,346**	1,484,971
Leased assets	8	**603,333**	505,550
Available for sale investments	9	**555,279**	525,750
Investment in associates	10	**142,734**	39,288
Trading properties		**93,009**	127,835
Investment properties	11	**184,479**	105,921
Other assets		**68,102**	69,736
Property and equipment	12	**107,695**	72,208
TOTAL ASSETS		**4,681,118**	3,458,066
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	13	**281,617**	121,821
Depositors' accounts	14	**3,189,344**	2,563,185
Other liabilities		**220,795**	204,807
TOTAL LIABILITIES		**3,691,756**	2,889,813
DEFERRED REVENUE		**235,239**	189,002
FAIR VALUE RESERVE	15	**62,092**	31,680
FOREIGN EXCHANGE TRANSLATION RESERVE	16	**11,401**	-
EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK			
Share capital	17	**109,397**	78,141
Share premium	17	**188,465**	12,618
Proposed issue of bonus shares	18	**13,128**	7,814
Reserves	19	**229,052**	188,295
		540,042	286,868
Proposed cash dividend	18	**60,168**	39,070
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK		**600,210**	325,938
Minority interest		**80,420**	21,633
TOTAL EQUITY		**680,630**	347,571
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND EQUITY		**4,681,118**	3,458,066

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMED SULAIMAN AL-OMAR
(DEPUTY GENERAL MANAGER)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

	Attributable to equity holders of the bank										Minority interest KD 000's	Total equity KD 000's
				Reserves								
	Share capital KD 000's	Share premium KD 000's	Proposed issue of bonus shares KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Treasury shares KD 000's	Sub total KD 000's	Sub total KD 000's	Proposed cash dividends KD 000's	Sub total KD 000's		
At 1 January 2004	71,689	7,826	4,301	137,251	28,542	(867)	164,926	248,742	35,844	284,586	20,637	305,223
Movements during the year												
Issue of bonus shares	4,301	-	(4,301)	-	-	-	-	-	-	-	-	-
Issue of shares for cash	2,151	4,774	-	-	-	-	-	6,925	-	6,925	-	6,925
Cash received on cancellation of share options	-	18	-	-	-	-	-	18	-	18	-	18
Zakat	-	-	-	-	(4,010)	-	(4,010)	(4,010)	-	(4,010)	-	(4,010)
Cash dividends paid	-	-	-	-	-	-	-	-	(35,844)	(35,844)	-	(35,844)
Proposed issue of bonus shares	-	-	7,814	-	-	-	-	7,814	-	7,814	-	7,814
Proposed cash dividends	-	-	-	-	-	-	-	-	39,070	39,070	-	39,070
Distribution of net profit:												
Transfer to statutory reserve	-	-	-	19,868	-	-	19,868	19,868	-	19,868	-	19,868
Transfer to voluntary reserve	-	-	-	-	7,660	-	7,660	7,660	-	7,660	-	7,660
Net movement in treasury shares	-	-	-	-	-	(149)	(149)	(149)	-	(149)	-	(149)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	996	996
At 31 December 2004	78,141	12,618	7,814	157,119	32,192	(1,016)	188,295	286,868	39,070	325,938	21,633	347,571
Movements during the year												
Issue of bonus shares	7,814	-	(7,814)	-	-	-	-	-	-	-	-	-
Issue of shares for cash	23,442	175,816	-	-	-	-	-	199,258	-	199,258	-	199,258
Cash received on cancellation of share options	-	31	-	-	-	-	-	31	-	31	-	31
Zakat	-	-	-	-	(4,372)	-	(4,372)	(4,372)	-	(4,372)	-	(4,372)
Cash dividends paid	-	-	-	-	-	-	-	-	(39,070)	(39,070)	-	(39,070)
Proposed issue of bonus shares	-	-	13,128	-	-	-	-	13,128	-	13,128	-	13,128
Distribution of net profit:												
Proposed cash dividends	-	-	-	-	-	-	-	-	60,168	60,168	-	60,168
Transfer to statutory reserve	-	-	-	12,267	-	-	12,267	12,267	-	12,267	-	12,267
Transfer to voluntary reserve	-	-	-	-	33,124	-	33,124	33,124	-	33,124	-	33,124
Net movement in treasury shares	-	-	-	-	-	(262)	(262)	(262)	-	(262)	-	(262)
Net change in minority interest	-	-	-	-	-	-	-	-	-	-	58,787	58,787
At 31 December 2005	**109,397**	**188,465**	**13,128**	**169,386**	**60,944**	**(1,278)**	**229,052**	**540,042**	**60,168**	**600,210**	**80,420**	**680,630**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2005

	Note	2005 KD 000's	2004 KD 000's
OPERATING ACTIVITIES			
Net profit for the year		**129,078**	77,301
Adjustment for:			
Depreciation		**15,528**	5,940
Provision for impairment		**37,047**	13,664
Share of the accumulated retained earnings of the newly consolidated subsidiaries as of 1 January 2005		**(11,957)**	-
Share of results of associates		**(14,376)**	-
Operating profit before changes in operating assets and liabilities		**155,320**	96,905
(Increase) decrease in operating assets:			
Exchange of deposits		**(4,727)**	-
Receivables		**(289,610)**	32,476
Leased assets		**(53,124)**	(217,437)
Trading properties		**34,826**	11,790
Other assets		**20,285**	29,914
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**24,769**	58,144
Depositors' accounts		**313,244**	263,023
Other liabilities		**(13,147)**	33,051
Deferred revenue		**46,237**	6,592
Net cash from operating activities		**234,073**	314,458
INVESTING ACTIVITIES			
Net sale (purchase) of available for investments		**65,777**	(120,590)
Purchase of investment properties		**(108)**	(5,557)
Purchase of property and equipment		**(31,669)**	(55,057)
(Purchase) sale of investment in associates		**(61,391)**	695
Net cash used in investing activities		**(27,391)**	(180,509)
FINANCING ACTIVITIES			
Issue of shares		**199,258**	6,925
Cash dividends paid		**(39,070)**	(35,844)
Cash received on cancellation of share options		**31**	18
Payment of Zakat		**(4,372)**	(4,010)
Net movement in treasury shares		**(262)**	(149)
Net cash from (used in) financing activities		**155,585**	(33,060)
INCREASE IN CASH AND CASH EQUIVALENTS		**362,267**	100,889
Cash and cash equivalents at 1 January		**339,315**	238,426
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**701,582**	339,315

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

1 ACTIVITIES

The consolidated financial statements of the group for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the parent company's board of directors on 22 January 2006.

The group comprises Kuwait Finance House K.S.C. and its consolidated subsidiaries as noted in Note 20. The parent company is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic Parent company 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 practising 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 instalment credit basis. The parent company'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 parent company's Fatwa and Shareea'a Supervisory Board.

The parent company operates through 36 local branches (2004: 33) and employed 1,750 employees as of 31 December 2005 (2004: 1,594) of which 920 (2004: 742) are Kuwaiti nationals representing 53% (2004: 47%) of the total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention
The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments.

The accounting policies, except for the adoption of the applicable revised and new accounting standards, are consistent with those used in the previous year.

The adoption of the revised accounting standards that formed part of the International Accounting Standards Board's improvements project and are applicable from 1 January 2005, has had no material impact on the consolidated financial statements during the year ended 31 December 2005.

The adoption of IAS 1 revised "Presentation of Financial Statements" during the year has resulted in amendments to the presentation of minority interest. Minority interest is now presented within equity.

During the year, the parent company consolidated five previously unconsolidated subsidiaries – Al Nakheel United Real Estate Company K.S.C. (Closed), Kuwait Finance House (Bahrain) B.S.C., Kuwait Finance House (Malaysia) Berhad, Kuwait Turkish Evkaf Finance House, AREF Investment Group K.S.C. (Closed) and equity accounted for associates namely, First Takaful Insurance Company K.S.C. (Closed), Liquidity Management Centre Company B.S.C. (Closed), Gulf Investment House K.S.C. (Closed), A'ayan Leasing and Investment Company K.S.C. (Closed) and National Bank of Sharjah PSJC. Previously, these associates and unconsolidated subsidiaries were carried at cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting convention (continued)
On consolidation, the group's share of the accumulated retained earnings of the subsidiaries as of 1 January 2005 amounting to KD 11,957 thousand along with results of the year ended 31 December 2005 amounting to KD 19,674 thousand have been included in the consolidated income statement for the year ended 31 December 2005. On equity accounting, the group's share of the post acquisition results of the associates upto 1 January 2005 amounting to KD 7,755 thousand along with share of results of the year ended 31 December 2005 amounting to KD 6,621 thousand have been included in the consolidated income statement for the year ended 31 December 2005.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the parent company for the year ended 31 December 2005, Al Enma'a Real Estate Company K.S.C. (Closed) for the year ended 31 October 2005, The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed) for the year ended 31 October 2005, Al Muthana Investment Company K.S.C. (Closed) for the year ended 30 September 2005, Kuwait Turkish Evkaf Finance House for the period ended 30 September 2005, Aref Investment Group K.S.C. (Closed) for the period ended 30 June 2005, Kuwait Finance House (Bahrain) B.S.C. for the period ended 30 November 2005, Kuwait Finance House (Malaysia) Berhad for the period ended 30 November 2005 and Al-Nakheel United Real Estate Company K.S.C. (Closed) for the year ended 31 October 2005. All significant intra-group balances, transactions and unrealised profits are eliminated upon consolidation.

The financial statements used in the consolidation are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and 31 December 2005, the reporting date of the parent company.

Some of the consolidated subsidiaries use accounting policies other than that adopted in the consolidated financial statements for certain assets. Hence, appropriate adjustments are made to their financial statements when used in preparing the consolidated financial statements to bring these in line with group accounting policies.

Short-term international murabaha
Short-term international murabaha are financial assets originated by the group and represent deals with high credit quality international banks and financial institutions with a residual maturity of upto three months from the balance sheet date. These are stated at amortised cost.

Receivables
Receivables are financial assets originated by the group and principally comprise Murabaha and Istisna'a receivables. These are stated at amortised cost.

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

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

Impairment of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective rate of return;
(b) for assets carried at fair value, impairment is the difference between cost and fair value;
(c) for assets carried at cost, impairment is the difference between cost and present value of future cash flows discounted at the current market rate of return for a similar financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

For available for sale equity investments, reversal of previously recognised impairment losses, which are no longer recognised in statement of income, are recorded as increases in the fair value reserve.

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision of 2% on all finance facilities net of certain categories of collateral, to which CBK instructions are applicable and not subject to specific provision, is made.

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.

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

Available for sale investments

Investments are initially recognised at cost and are subsequently remeasured to fair value unless fair value cannot be reliably determined. Changes in fair value are reported in the fair value reserve until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gain or loss previously included within the fair value reserve is included within investment income in the consolidated income statement.

Investment in associates

An associate is a company over which the group exerts significant influence or holding of 20% to 50% of the voting power of the investee company. The consolidated financial statements include the group's share of the associated company's results using the equity method of accounting based on the latest audited financial statements available. Certain financial statements used for the purposes of equity accounting are drawn up to different reporting dates, hence adjustments were made for the effects of significant transactions or other events that occurred between the reporting date of the associates and the reporting date of the parent company where it was practicable to do so.

Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss and other changes in the equity of the associated company. Distributions received from the associated company reduce the carrying amount of the investment.

An assessment of the investment in associated company is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Trading properties

Trading properties are carried at the lower of cost and market value determined on an individual basis.

Investment properties

Investment properties are initially recorded at cost. 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. The carrying amounts are reviewed at each balance sheet date on an individual basis by reference to their fair value to assess whether they are recorded in excess of their recoverable amount. The recoverable amount of an asset is the higher of an asset's net selling price and value in use. Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Impairment losses, if any, are recognised in the consolidated income statement where carrying values exceed the recoverable amount.

Fair values

Available for sale investments

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)
For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment.

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

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

Financial assets and liabilities
For financial assets and liabilities, fair value is determined based on expected future cash flows or 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.

Revenue recognition
i) Income from Murabaha and Istisna'a is recognised on a weighted time apportionment basis.
ii) Income from leased assets is recognised on a pattern reflecting a constant periodic return on the net investment outstanding.
iii) Rental income from investment properties is recognised on an accruals basis.
iv) Dividend income, including dividend income on own shares (held on behalf of depositors), is recognised when the right to receive payment is established.
v) Fee and commission income is recognised at the time the related services are provided.

Zakat
Zakat is calculated at 2.577% on the opening reserves of the parent company (excluding proposed distributions) which have remained for one complete fiscal year and is paid under the direction of the parent company's Al-Fatwa and Shareea'a Supervisory Board. Zakat is charged to voluntary reserve.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti dinars at the period end rates of exchange and the results of these entities are translated into Kuwaiti dinars at the average rates of exchange for the period, except for entities operating in hyper-inflationary economies. The results of entities operating in hyper inflationary economics are translated into Kuwaiti Dinars at the period end exchange rates. On equity accounting, the carrying value of the associates is translated into Kuwaiti dinars at the period end rates of exchange and the results of the associates are translated into Kuwaiti dinars at the average rates of exchange for the year. All foreign exchange translation adjustments are taken to the foreign exchange translation reserve until disposal at which time they are recognised in the consolidated income statement.

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

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis so as to realise the assets and liabilities simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash, tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions and international murabaha contracts and exchange of deposits maturing within three months of contract date.

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 these consolidated financial statements.

Judgements
In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit and loss account, or available for sale.

The group classified all of its investments as available for sale.

Impairment of investments
The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement. In addition, the group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

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

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- 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, and as a result investments with a carrying amount of KD 62,838 (2004: KD 9,934) are carried at cost.

3 INVESTMENT INCOME

	2005 *KD 000's*	*2004* *KD 000's*
Income from sale of trading properties	**26,878**	9,042
Rental income	**11,690**	8,812
Dividend income	**20,156**	18,045
Gain from sale of investments	**55,396**	12,394
Group's share of the accumulated retained earnings of the newly consolidated subsidiaries as of 1 January 2005	**11,957**	-
Post acquisition results of associates as of 1 January 2005	**7,755**	-
Share of results of associates for the current year	**6,621**	-
	140,453	48,293

4 PROVISION FOR IMPAIRMENT

	2005 *KD 000's*	*2004* *KD 000's*
Provision for impairment of receivables and other assets	**28,783**	12,615
Provision for impairment of investments	**8,264**	1,049
	37,047	13,664

5 BASIC EARNINGS PER SHARE

Basic earnings per share are based on the net profit for the year attributable to equity holders of the parent company of KD 118,687 thousand (2004: KD 74,412 thousand) and the weighted average number of ordinary shares outstanding during the year of 975,543 thousand (2004: 858,645 thousand) after adjusting by average treasury shares held by the group.

The basic earnings per share of the previous year has been restated for bonus shares issued in 2005.

6 CASH AND CASH EQUIVALENTS

	2005 *KD 000's*	*2004* *KD 000's*
Cash	**42,328**	18,919
Balances with Central Banks	**46,875**	69,960
Balances with banks and financial institutions - current accounts	**67,977**	45,880
Balances with banks and financial institutions - exchange of deposits	**1,113**	11,402
Cash and balances with banks and financial institutions	**158,293**	146,161
Short-term international murabaha – maturing within 3 months of contract date	**447,646**	192,154
Tawarruq balances with Central Bank of Kuwait	**100,370**	1,000
Exchange of deposits – maturing after 3 months of contract date	**(4,727)**	-
Cash and cash equivalents	**701,582**	339,315

6 CASH AND CASH EQUIVALENTS (continued)

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

	2005 *KD 000's*	*2004* *KD 000's*
Due from banks and financial institutions	**251,231**	341,273
Due to banks and financial institutions	**(304,447)**	(378,140)
	(53,216)	(36,867)

Included in the consolidated balance sheet as net balances:

	2005 *KD 000's*	*2004* *KD 000's*
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	**1,113**	11,402
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 13)	**(54,329)**	(48,269)
	(53,216)	(36,867)

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

7 RECEIVABLES

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

	2005 *KD 000's*	*2004* *KD 000's*
International murabahas	**116,786**	131,601
Local murabahas	**1,617,166**	1,362,911
Istisna'a and other receivables	**507,151**	113,144
	2,241,103	1,607,656
Less: provision for impairment	**(136,757)**	(122,685)
	2,104,346	1,484,971

The industry concentration of receivables is as follows:

	2005 *KD 000's*	*2004* *KD 000's*
Trading and manufacturing	**1,325,779**	953,966
Banks and financial institutions	**396,563**	306,616
Construction and real estate	**379,352**	335,116
Other	**139,409**	11,958
	2,241,103	1,607,656
Less: provision for impairment	**(136,757)**	(122,685)
	2,104,346	1,484,971

7 RECEIVABLES (continued)

Provisions for losses on receivables from customers for finance facilities are as follows:

	Specific		*General*		*Total*	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Balance at beginning of year	**87,276**	80,375	**35,409**	29,695	**122,685**	110,070
Provided during the year, net	**3,511**	6,901	**10,561**	5,714	**14,072**	12,615
Balance at end of year	**90,787**	87,276	**45,970**	35,409	**136,757**	122,685

At 31 December 2005, non-performing finance facilities amounted to KD 98,926 thousand (2004: KD 98,316 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion	*Post liberation*	*Total*
	KD 000's	*KD 000's*	*KD 000's*
2005			
Finance facilities	**31,737**	**67,189**	**98,926**
Provisions	**31,737**	**59,050**	**90,787**
2004			
Finance facilities	31,790	66,526	98,316
Provisions	31,790	55,486	87,276

The provision charge for the year on unfunded facilities is KD 1,467 thousand (2004: KD 569 thousand). The available provision on unfunded facilities of KD 5,188 thousand (2004: KD 3,721 thousand) is included under other liabilities.

The analysis of specific and general provisions set out above is based on the requirements of the Central Bank of Kuwait. According to the Central Bank of Kuwait instructions, a general provision of 2% on all credit facilities net of certain categories of collateral, to which Central Bank of Kuwait instructions are applicable and not subject to specific provision, is made.

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

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

Receivables from banks and financial institutions comprise mainly murabaha transactions with high credit quality institutions.

The group's receivables are principally concentrated in Kuwait.

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

8 LEASED ASSETS

The net investment comprises the following:

	2005 KD 000's	2004 KD 000's
Gross investment	**629,607**	525,598
Unearned revenue	**(16,153)**	(19,157)
Provision for impairment	**(10,121)**	(891)
	603,333	505,550

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

	2005 KD 000's	2004 KD 000's
Within one year	**494,733**	423,491
One to five year	**107,030**	65,386
Later than five years	**27,844**	36,721
	629,607	525,598

The unguaranteed residual value of the leased assets at 31 December 2005 is estimated at KD Nil (2004: KD Nil).

9 AVAILABLE FOR SALE INVESTMENTS

	2005 KD 000's	2004 KD 000's
Investments comprise:		
Quoted equity investments	**55,395**	48,841
Unquoted equity investments	**62,838**	9,934
Managed portfolios	**66,988**	34,411
Funds	**198,978**	187,874
Sukook	**87,569**	64,089
Unconsolidated subsidiaries	**83,511**	180,601
	555,279	525,750
Investments carried at fair value	**384,199**	281,060
Investments carried at cost less impairment	**171,080**	244,690
	555,279	525,750

Included in managed portfolios is an amount of KD 18,594 thousand (2004: KD 9,643 thousand) which represents the group's investment in 7,559 thousand (2004: 5,953 thousand) of its own shares on behalf of depositors, equivalent to 0.69% of the total issued share capital at 31 December 2005 (2004: 0.76%). The results from activities relating to dealing in these shares are attributed only to the depositors and hence these shares are classified under investments.

9 AVAILABLE FOR SALE INVESTMENTS (continued)

The parent company's unconsolidated subsidiaries primarily consist of the following:

	Interest in equity %	*Country of registration*	*Principal activities*
Development Enterprises Holding Co.	100	Kuwait	Holding Company
Gulf International Automobile Trading Company K.S.C. (Closed)	100	Kuwait	Trading in motor vehicles
ALAFCO - Aviation Lease and Finance Company K.S.C. (Closed)	85	Kuwait	Leasing and financing of aircraft
International Turnkey Systems Company K.S.C. (Closed)	85	Kuwait	Development of computer software and hardware
Public Services Company K.S.C. (Closed)	80	Kuwait	Administrative services
Al Salaam Hospital Company K.S.C. (Closed)	52	Kuwait	Health care

10 INVESTMENT IN ASSOCIATES

The parent company's associates comprise the following companies:

	Interest in equity %	*Country of registration*	*Principal activities*
First Takaful Insurance Company K.S.C. (Closed)	27	Kuwait	Islamic Takaful insurance
Gulf Investment House K.S.C. (Closed)	26	Kuwait	Islamic investments
Liquidity Management Centre Company B.S.C. (Closed)	25	Bahrain	Islamic banking and financial services
National Bank of Sharjah PJSC	20	United Arab Emirates	Islamic banking services
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	Kuwait	Leasing and Islamic investments

10 INVESTMENT IN ASSOCIATES (continued)

Carrying amount of investment in associates:	*2005 KD 000's*	*2004 KD 000's*
At 1 January	**39,288**	39,983
Post acquisition results as of 1 January 2005	**7,755**	-
Investments in associates arising on consolidation	**91,716**	-
Share of results for the year	**6,621**	-
Dividends received	**(2,646)**	(695)
At 31 December	**142,734**	39,288

	2005 KD 000's	*2004 KD 000's*
Share of associates' assets and liabilities:		
Assets	**247,498**	121,310
Liabilities	**(104,764)**	(82,022)
Net assets	**142,734**	39,288

	2005 KD 000's	*2004 KD 000's*
Share of associates' revenue and results:		
Revenue	**13,003**	8,587
Results	**6,621**	-

Investments in associates with a carrying amount of KD 103,497 thousand have a fair value of KD 185,898 thousand. The remaining associates with a carrying value of KD 39,237 thousand are unquoted companies and do not have a reliable measure of fair value.

11 INVESTMENT PROPERTIES

	2005 KD 000's	*2004 KD 000's*
At 1 January	**105,921**	102,447
Arising on consolidation	**30,687**	-
Purchases	**55,729**	6,625
Disposals	**(5,216)**	(1,068)
Depreciation charged for the year	**(2,743)**	(2,075)
Impairment losses released (charged)	**101**	(8)
At 31 December	**184,479**	105,921
Cost	**214,342**	133,143
Accumulated depreciation	**(23,274)**	(20,532)
Impairment	**(6,589)**	(6,690)
	184,479	105,921

Included in investment properties is an 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 investment, are attributed only to the equity holders of the bank.

The fair value of the investment properties at the balance sheet date is KD 208,520 thousand (2004: KD 122,982 thousand).

12 PROPERTY AND EQUIPMENT

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

13 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2005	*2004*
	KD 000's	*KD 000's*
Current accounts	**70,865**	4,624
Murabaha payable	**156,423**	68,928
Exchange of deposits (Note 6)	**54,329**	48,269
	281,617	121,821

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

14 DEPOSITORS' ACCOUNTS

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

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

ii) Investment deposits comprise deposits for unlimited periods and 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 parent company generally invests approximately 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Al-Sedra") and 60% of investment savings accounts ("Tawfeer"). The parent company guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the parent company, on the grounds of Islamic Shareea'a. Investing such Qard Hasan is made at the discretion of the board of directors of the parent company, the results of which are attributable to the equity holders of the parent company.

b) On the basis of the results for the year the board of directors of the parent company determined the depositors' share of profit at the following rates:

	2005	*2004*
	% per annum	*% per annum*
Investment deposits for an unlimited period ("Mustamera")	**6.807**	4.800
Investment deposits for an unlimited period ("Al-Sedra")	**5.294**	3.733
Investment savings accounts ("Tawfeer")	**4.538**	3.200

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

15 FAIR VALUE RESERVE

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

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

	2005 *KD 000's*	*2004* *KD 000's*
Balance at 1 January	**31,680**	19,776
Change in fair value during the year	**49,480**	15,314
Gain realised during the year	**(19,068)**	(3,410)
Balance at 31 December	**62,092**	31,680

16 FOREIGN EXCHANGE TRANSLATION RESERVE

The foreign exchange translation reserve arises on the consolidation of foreign subsidiaries and equity accounting of foreign associates.

Management of the parent company is of the opinion that this reserve is attributable to both the depositors and equity holders. As a result, the reporting of this reserve as a separate item on the consolidated balance sheet enables a fairer presentation than its inclusion under equity.

17 SHARE CAPITAL

The ordinary and extraordinary general assembly meeting of the equity holders of the parent company held on 14 March 2005 approved an increase in the authorised share capital from KD 78,141 thousand to KD 85,955 thousand (by way of an issuance of 10% bonus shares amounting to KD 7,814 thousand) and by 234,422 thousand shares with a nominal value of 100 fils per share amounting to KD 23,442 thousand plus premium of 750 fils per share amounting to KD 175,816 thousand. Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2005 comprises 1,093,968 thousand (31 December 2004: 781,406 thousand) shares of 100 fils each.

18 PROPOSED CASH DIVIDEND AND ISSUE OF BONUS SHARES

The board of directors of the parent company have proposed a cash dividend of 55% for the year ended 31 December 2005 (2004: 50%) and an issue of bonus shares of 12% (2004: 10%) of paid up share capital. This proposal is subject to the approval of the Ordinary General Assembly of the equity holders of the parent company and completion of legal formalities. Proposed dividends are shown separately within equity.

The parent company increased its share capital at end of June 2005 which has impacted the distributable earnings per share. The distributable earnings per share calculated by the management based on the total number of shares as at 31 December 2005 (excluding treasury shares) of 1,092,754 thousand is 109 fils per share, distributed as above, after deduction of transfers to reserves.

19 RESERVES

The Extraordinary General Assembly of the parent company 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 net profit for the year to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the parent company. As of this year, the Ordinary General Assembly has resolved to suspend transfers to statutory reserve in excess of 10%. As a result, an amount of KD 12,267 thousand equivalent to approximately 10% (2004: KD 19,868 thousand equivalent to approximately 27%), of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to statutory reserve.

Only that part of the statutory reserve in excess of 50% of paid-up share capital is freely distributable and useable at the discretion of the Ordinary General Assembly in ways that may be deemed beneficial to the parent company. 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.

27% of the profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees and National Labour Support tax has been transferred to voluntary reserve.

The share premium account is not available for distribution.

20 CONSOLIDATED SUBSIDIARIES

Details of consolidated subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %*	*Principal activities*
Kuwait Finance House B.S.C.	Bahrain	100	Islamic banking services
The Kuwaiti Manager Company for Managing Real Estate Projects K.S.C. (Closed)	Kuwait	100	Contracting, trading and project management
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	Islamic investments
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	Real estate investment and trading
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	Islamic banking services
Kuwait Turkish Evkaf Finance House	Turkey	62	Islamic banking services
Aref Investment Group K.S.C. (Closed)	Kuwait	52	Islamic investments
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	Real estate, investment, trading and management

21 CONTINGENCIES AND COMMITMENTS

At the balance sheet date there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the following:

	2005 *KD 000's*	*2004* *KD 000's*
Acceptances and letters of credit	**43,002**	36,846
Guarantees	**197,760**	160,842
	240,762	197,688
Capital commitments	**103,865**	244,460

22 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the group, their families and companies of which they are principal owners) were depositors and financing facilities customers of the parent company, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. These transactions are approved by the Ordinary General Assembly of the equity holders of the parent company.

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*			
	2005	*2004*	*2005*	*2004*	*2005* *KD 000's*	*2004* *KD 000's*
Board Members						
Finance facilities	**6**	6	**4**	2	**137**	111
Contingent liabilities	**-**	1	**-**	-	**-**	15
Credit cards	**13**	9	**18**	6	**17**	10
Deposits	**16**	11	**475**	57	**3,762**	2,546
Collateral against financing facilities	**-**	-	**-**	-	**-**	-
Executive officers						
Finance facilities	**21**	25	**40**	11	**479**	955
Contingent liabilities	**-**	-	**-**	-	**-**	-
Credit cards	**30**	19	**43**	27	**37**	13
Deposits	**34**	29	**123**	72	**617**	1,363
Collateral against finance facilities	**7**	7	**17**	-	**754**	1,645

Compensation of key management personnel is as follows:

	2005 *KD 000's*	*2004* *KD 000's*
Short-term employee benefits	**2,982**	2,009
Termination benefits	**3,883**	3,149
	6,865	5,158

23 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 parent company's board of directors and a continuous assessment of the group's 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 had the following significant net exposures denominated in foreign currencies as of 31 December:

	2005 KD 000's equivalent	*2004 KD 000's equivalent*
U.S. Dollars	**(7,850)**	83,994
Sterling Pounds	**664**	1,197
Japanese Yen	**(4)**	645
Euros	**(9,109)**	1,346
Gulf Cooperation Council currencies	**(6,101)**	(10,557)
Others	**299**	1,530

24 SEGMENTAL ANALYSIS

Primary segment information

For management purposes the parent company is organised 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 investments, investments in subsidiaries, associated companies and international leasing.

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

24 SEGMENTAL ANALYSIS (continued)

31 December 2005 Assets	Treasury KD 000's	Investment KD 000's	Retail and corporate banking KD 000's	Other groups KD 000's	Total KD 000's
Cash and balances with banks and financial institutions	158,293	-	-	-	158,293
Short-term international murabaha	658,153	5,695	-	-	663,848
Receivables	116,786	11,301	1,957,493	18,766	2,104,346
Leased assets	-	79,423	523,910	-	603,333
Available for sale investments	-	555,279	-	-	555,279
Investment in associates	-	142,734	-	-	142,734
Trading properties	-	93,009	-	-	93,009
Investment properties	-	184,479	-	-	184,479
Other assets	1,921	10,347	52,170	3,664	68,102
Property and equipment	1,043	2,246	82,466	21,940	107,695
	936,196	1,084,513	2,616,039	44,370	4,681,118
Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity					
Due to banks and financial Institutions	281,617	-	-	-	281,617
Depositors' accounts	-	50,352	3,138,992	-	3,189,344
Other liabilities	66	6,620	132,391	81,718	220,795
Deferred revenue	-	-	235,239	-	235,239
Fair value reserve	-	62,092	-	-	62,092
Foreign exchange translation reserve	-	11,401	-	-	11,401
Total equity	-	-	-	680,630	680,630
	281,683	130,465	3,506,622	762,348	4,681,118
Year ended 31 December 2005					
Operating income	6,214	140,453	223,309	13,352	383,328
Profit before distribution to depositors	4,144	93,674	148,935	8,905	255,658

24 SEGMENTAL ANALYSIS (continued)

31 December 2004 Assets	*Treasury* *KD 000's*	*Investment* *KD 000's*	*Retail and corporate banking* *KD 000's*	*Other groups* *KD 000's*	*Total* *KD 000's*
Cash and balances with banks and financial institutions	146,161	-	-	-	146,161
Short-term international murabaha	380,381	265	-	-	380,646
Receivables	94,885	12,862	1,356,020	21,204	1,484,971
Leased assets	-	73,029	432,521	-	505,550
Available for sale investments	-	525,750	-	-	525,750
Investment in associates	-	39,288	-	-	39,288
Trading properties	-	127,835	-	-	127,835
Investment properties	-	105,921	-	-	105,921
Other assets	-	14,996	51,127	3,613	69,736
Property and equipment	304	153	36,356	35,395	72,208
	621,731	900,099	1,876,024	60,212	3,458,066
Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity					
Due to banks and financial Institutions	121,821	-	-	-	121,821
Depositors' accounts	168	87,621	2,181,292	294,104	2,563,185
Other liabilities	75	4,865	122,663	77,204	204,807
Deferred revenue	9,764	-	179,238	-	189,002
Fair value reserve	-	31,680	-	-	31,680
Foreign exchange translation reserve	-	-	-	-	-
Total equity	-	-	-	347,571	347,571
	131,828	124,166	2,483,193	718,879	3,458,066
Year ended 31 December 2004					
Operating income	17,720	51,104	127,018	7,764	203,606
Profit before distribution to depositors	9,367	47,428	88,473	5,689	150,957

24 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

	Assets		*Liabilities, deferred revenue, fair value reserve, foreign exchange translation reserve and total equity*		*Contingencies and commitments under letters of credit and guarantees*	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Geographical areas:						
Kuwait and the rest of the Middle East	**3,868,116**	2,985,770	**4,263,022**	3,414,246	**171,413**	140,940
North America	**111,041**	135,036	**11,933**	22,722	**2,312**	1,892
Western Europe	**186,946**	237,887	**12,363**	20,889	**11,558**	9,458
Other	**515,015**	99,373	**393,800**	209	**55,479**	45,398
	4,681,118	3,458,066	**4,681,118**	3,458,066	**240,762**	197,688

	Local		*International*		*Total*	
	2005	*2004*	***2005***	*2004*	***2005***	*2004*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Operating income	**297,656**	173,778	**85,672**	29,828	**383,328**	203,606
Profit before distribution to depositors	**198,520**	128,842	**57,138**	22,115	**255,658**	150,957

25 CONCENTRATION OF ASSETS AND DEPOSIT 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:

	2005	*2004*
	KD 000's	*KD 000's*
Trading and manufacturing	**1,425,500**	310,018
Banks and financial institutions	**1,363,962**	1,260,765
Construction and real estate	**1,296,547**	1,148,230
Other	**595,109**	739,053
	4,681,118	3,458,066

See Note 24 for distribution of assets by geographical areas.

25 CONCENTRATION OF ASSETS AND DEPOSIT LIABILITIES (continued)

(b) The distribution of deposit liabilities was as follows:

	2005 *KD 000's*	*2004* *KD 000's*
Geographic region		
Kuwait and the rest of the Middle East	**3,124,753**	2,643,897
North America	**40**	22,103
Western Europe	**5,079**	18,957
Other	**341,089**	49
	3,470,961	2,685,006
Industry sector		
Trading and manufacturing	**568,010**	461,392
Banks and financial institutions	**281,617**	121,884
Construction and real estate	**22,172**	13,344
Other	**2,599,162**	2,088,386
	3,470,961	2,685,006

26 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

All policies relating to credit including the determination of approval limits are approved by the parent company's board of directors.

The group manages credit risk on both an individual counterparty and portfolio or product line basis together with geographical and business diversification to avoid undue concentration of risk. Credit limits or individual transactions resulting in credit risk are approved in accordance with appropriately defined procedures for the assessment of creditworthiness, collateral requirements and approval limits by the group's management and executive credit committees. Security is obtained when considered appropriate and is considered by management in the determination of provisions. The group's credit granting process including the subsequent monitoring, timely identification of defaults and determination of provisions are subject to periodic independent internal reviews.

The credit risk concentrations within receivables, which form a significant portion of assets subject to credit risk, are given in Note 7.

27 LIQUIDITY RISK

Liquidity risk is the risk that the group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises 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 balance sheet 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 arrangements.

The maturity profile of assets and liabilities at 31 December 2005 is as follows:

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After one year KD 000's*	***Total KD 000's***
Assets					
Cash and balances with banks and financial institutions	158,293	-	-	-	**158,293**
Short-term international murabaha	663,848	-	-	-	**663,848**
Receivables	462,956	315,652	441,913	883,825	**2,104,346**
Leased assets	168,933	126,700	199,100	108,600	**603,333**
Available for sale investments	-	-	-	555,279	**555,279**
Investment in associates	-	-	-	142,734	**142,734**
Trading properties	-	93,009	-	-	**93,009**
Investment properties	-	-	-	184,479	**184,479**
Other assets	45,968	4,488	-	17,646	**68,102**
Property and equipment	-	-	-	107,695	**107,695**
	1,499,998	**539,849**	**641,013**	**2,000,258**	**4,681,118**
Liabilities					
Due to banks and financial institutions	281,617	-	-	-	**281,617**
Depositors' accounts	1,945,073	11,120	33,663	1,199,488	**3,189,344**
Other liabilities	29,028	45,454	45,770	100,543	**220,795**
	2,255,718	**56,574**	**79,433**	**1,300,031**	**3,691,756**

27 LIQUIDITY RISK (continued)

The maturity profile of assets and liabilities at 31 December 2004 is as follows:

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After one year KD 000's*	*Total KD 000's*
Assets					
Cash and balances with banks and financial institutions	146,161	-	-	-	146,161
Short-term international murabaha	380,646	-	-	-	380,646
Receivables	315,967	199,317	226,901	742,786	1,484,971
Leased assets	194,578	125,018	86,938	99,016	505,550
Available for sale investments	-	-	-	525,750	525,750
Investment in associates	-	-	-	39,288	39,288
Trading properties	-	127,835	-	-	127,835
Investment properties	-	-	-	105,921	105,921
Other assets	37,008	32,001	562	165	69,736
Property and equipment	-	-	-	72,208	72,208
	1,074,360	484,171	314,401	1,585,134	3,458,066
Liabilities					
Due to banks and financial Institutions	121,821	-	-	-	121,821
Depositors' accounts	1,532,055	6,181	6,181	1,018,768	2,563,185
Other liabilities	130,796	17,958	56,053	-	204,807
	1,784,672	24,139	62,234	1,018,768	2,889,813

28 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 in accordance with Islamic Shareea'a the group does not provide contractual rates of return to its depositors.

29 EQUITY PRICE RISK

Equity price risk arises from the change in the fair values of equity investments. The group manages this risk through diversification of investments in terms of geographical distribution and industry concentrations.

30 OPERATIONAL RISK

The parent company has a set of policies and procedures, which is approved by its board of directors and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the parent company. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

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

31 MANAGEMENT OF PURCHASED DEBTS

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

32 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 does not make use of derivative financial instruments. Information about fair values of financial assets and liabilities are disclosed in the related notes to the consolidated financial statements.

33 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the parent company at 31 December 2005 amounted to KD 274,239 thousand (2004: KD 155,266 thousand).

34 COMPARATIVE FIGURES

Certain of the comparative figures have been restated to conform with the presentation in the current year. Such reclassifications do not affect previously reported net profit or equity.