KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ERNST & YOUNG

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, consolidated statement 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.

ERNST & YOUNG Deloitte.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, and by the Bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, or of the articles of association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2010 and based on the Bank's Shareea'a Board report issued for the year ended 31 December 2010, we are not aware of any violations of the fatwas and rulings of the Bank's Shareea'a Board.

WALEED A. AL OSAIMI LICENCE NO. 68 A OF ERNST & YOUNG AL AIBAN, AL OSAIMI & PARTNERS	JASSIM AHMAD AL-FAHAD LICENCE NO. 53 A DELOITTE & TOUCHE AL-FAHAD, Al-WAZZAN & CO.

10 January 2011
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

	Note	*2010* *KD 000's*	*2009* *KD 000's*
INCOME			
Financing income		**517,573**	528,411
Investment income	3	**92,287**	111,613
Fee and commission income		**65,211**	63,406
Net gain (loss) of foreign currencies		**3,111**	(2,250)
Other income		**58,117**	65,523
		736,299	766,703
EXPENSES			
Staff costs		**114,131**	111,893
General and administrative expenses		**91,306**	86,757
Finance costs		**44,871**	54,543
Depreciation		**48,186**	40,031
Impairment	4	**198,633**	203,885
		497,127	497,109
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		**239,172**	269,594
Distribution to depositors		**162,866**	192,584
PROFIT AFTER DISTRIBUTION		**76,306**	77,010
Contribution to Kuwait Foundation for the Advancement of Sciences		**1,105**	1,239
National Labor Support tax		**2,582**	3,394
Zakat (based on Zakat Law No. 46/2006)		**679**	397
Directors' fees	21	**160**	160
PROFIT FOR THE YEAR		**71,780**	71,820
Attributable to:			
Equityholders of the Bank		**105,983**	118,741
Non-controlling interests		**(34,203)**	(46,921)
		71,780	71,820
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	5	**43.1 fils**	48.2 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	***2010*** ***KD 000's***	*2009* *KD 000's*
Profit before distribution to depositors		**239,172**	269,594
Other comprehensive income (loss)			
Change in fair value of available for sale investments	17	**(32,447)**	(88,644)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	17	**2,973**	(2,444)
Loss realised on available for sale investments during the year	17	**6,069**	672
Impairment losses transferred to the consolidated statement of income	17	**16,930**	49,210
Share of other comprehensive loss of associates	17	**(2,927)**	(3,785)
Exchange differences on translation of foreign operations	18	**2,967**	15,079
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		**(6,435)**	(29,912)
Total comprehensive income before estimated distribution to depositors		**232,737**	239,682

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	*2010* *KD 000's*	*2009* *KD 000's*
ASSETS			
Cash and balances with banks and financial institutions	6	**447,585**	444,943
Short-term murabahas		**1,597,372**	1,257,573
Receivables	7	**5,545,915**	5,090,398
Trading properties		**221,226**	126,386
Leased assets	8	**1,272,703**	1,288,066
Investments	9	**1,183,050**	1,042,026
Investment in associates	10	**339,307**	410,838
Investment properties	11	**561,377**	506,464
Other assets	12	**629,293**	522,394
Property and equipment	13	**750,671**	601,606
TOTAL ASSETS		**12,548,499**	11,290,694
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	14	**2,211,580**	1,460,925
Depositors' accounts	15	**7,649,082**	7,261,827
Other liabilities	16	**602,135**	563,451
TOTAL LIABILITIES		**10,462,797**	9,286,203
DEFERRED REVENUE		**515,874**	464,602
FAIR VALUE RESERVE	17	**(42,999)**	(33,597)
FOREIGN EXCHANGE TRANSLATION RESERVE	18	**10,498**	7,531
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK			
Share capital	19	**248,985**	230,542
Share premium		**464,766**	464,766
Proposed issue of bonus shares	21	**19,919**	18,443
Treasury shares	19	**(26,722)**	(36,662)
Reserves	20	**534,078**	507,871
		1,241,026	1,184,960
Proposed cash dividend	21	**49,304**	56,857
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		**1,290,330**	1,241,817
Non-controlling interests		**311,999**	324,138
TOTAL EQUITY		**1,602,329**	1,565,955
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		**12,548,499**	11,290,694

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to equityholders of the Bank													*Non-controlling interests 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*	*Treasury shares KD 000's*	*Statutory reserve KD 000's*	*Voluntary reserve KD 000's*	*Employee share options reserve KD 000's*	*Treasury shares reserve KD 000's*	*Sub total KD 000's*	*Profit for the year KD 000's*	*Sub total KD 000's*	*Proposed cash dividend KD 000's*	*Sub total KD 000's*		
At 31 December 2008	205,841	464,766	24,701	(7,651)	230,844	234,415	4,237	1,006	470,502	-	1,158,159	82,124	1,240,283	354,546	1,594,829
Issue of bonus shares	24,701	-	(24,701)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(9,464)	-	-	(9,464)	-	(9,464)	-	(9,464)	-	(9,464)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(82,124)	(82,124)	-	(82,124)
Profit for the year	-	-	-	-	-	-	-	-	-	118,741	118,741	-	118,741	(46,921)	71,820
Distribution of profit:															
Proposed issue of bonus shares	-	-	18,443	-	-	-	-	-	-	(18,443)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	56,857	-	-	-
Transfer to statutory reserve	-	-	-	-	12,393	-	-	-	12,393	(12,393)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	31,048	-	-	31,048	(31,048)	-	-	-	-	-
Net movement in treasury shares	-	-	-	(29,011)	-	-	-	-	-	-	(29,011)	-	(29,011)	-	(29,011)
Profit on sale of treasury shares	-	-	-	-	-	-	-	3,392	3,392	-	3,392	-	3,392	-	3,392
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	16,513	16,513
At 31 December 2009	230,542	464,766	18,443	(36,662)	243,237	255,999	4,237	4,398	507,871	-	1,184,960	56,857	1,241,817	324,138	1,565,955
Issue of bonus shares	18,443	-	(18,443)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(11,349)	-	-	(11,349)	-	(11,349)	-	(11,349)	-	(11,349)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	-	(56,857)
Cancellation of share option	-	-	-	-	-	-	2	-	2	-	2	-	2	-	2
Profit for the year	-	-	-	-	-	-	-	-	-	105,983	105,983	-	105,983	(34,203)	71,780
Distribution of profit:															
Proposed issue of bonus shares	-	-	19,919	-	-	-	-	-	-	(19,919)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(49,304)	(49,304)	49,304	-	-	-
Transfer to statutory reserve	-	-	-	-	11,051	-	-	-	11,051	(11,051)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	25,709	-	-	25,709	(25,709)	-	-	-	-	-
Net movement in treasury shares	-	-	-	9,940	-	-	-	-	-	-	9,940	-	9,940	-	9,940
Profit on sale of treasury shares	-	-	-	-	-	-	-	794	794	-	794	-	794	-	794
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	22,064	22,064
At 31 December 2010	**248,985**	**464,766**	**19,919**	**(26,722)**	**254,288**	**270,359**	**4,239**	**5,192**	**534,078**	-	**1,241,026**	**49,304**	**1,290,330**	**311,999**	**1,602,329**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Note	*2010* *KD 000's*	*2009* *KD 000's*
OPERATING ACTIVITIES			
Profit for the year		**71,780**	71,820
Adjustment for:			
Depreciation		**48,186**	40,031
Impairment		**198,633**	203,885
Dividend income		**(9,319)**	(18,260)
Gain on part sale of associates and subsidiaries		**(87)**	(34,821)
Gain on sale of investments		**(1,632)**	(14,623)
Sukook income		**(9,004)**	(2,979)
Gain on cancellation of aircraft contract		**(19,694)**	-
Gain on sale of exploration assets		**(24,516)**	-
Share of results of associates		**57,492**	28,724
Other investment income		**(19,385)**	(21,284)
		292,454	252,493
Changes in operating assets and liabilities			
(Increase) decrease in operating assets:			
Receivables		**(586,985)**	(442,723)
Trading properties		**(146,567)**	(7,451)
Leased assets		**(5,240)**	(113,123)
Other assets		**(94,341)**	(61,442)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**750,655**	(121,670)
Depositors' accounts		**387,254**	650,271
Other liabilities		**55,879**	183,487
Net cash from operating activities		**653,109**	339,842
INVESTING ACTIVITIES			
Purchase of investments, net		**(147,327)**	(73,613)
Purchase of investment properties, net		**(44,954)**	(56,614)
Purchase of property and equipment, net		**(203,943)**	(221,820)
Purchase of investments in associates, net		**(2,023)**	(16,055)
Sukook income		**9,004**	2,979
Cash proceeds from cancellation of aircraft contracts		**20,067**	-
Proceeds from sale of exploration assets		**34,911**	-
Dividend income received		**11,848**	20,996
Net cash used in investing activities		**(322,417)**	(344,127)
FINANCING ACTIVITIES			
Cash dividends paid		**(56,857)**	(82,124)
Cash received on cancellation of share options		**2**	-
Payment of Zakat		**(11,349)**	(9,464)
Net movement in treasury shares		**10,734**	(25,619)
Net cash used in financing activities		**(57,470)**	(117,207)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**273,222**	(121,492)
Cash and cash equivalents at 1 January		**1,246,693**	1,368,185
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**1,519,915**	1,246,693

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

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Bank's Board of Directors on 10 January 2011 and are subject to approval by the Central Bank of Kuwait. The general assembly of the equityholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 22. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practicing usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins which can be settled in cash or on installment credit basis. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

The Bank operates through 52 local branches (2009: 48) and employed 2,153 employees as of 31 December 2010 (2009: 2,109) of which 1,327 (2009: 1,287) are Kuwaiti nationals representing 62% (2009: 61%) of the Bank's total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

Accounting convention

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

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

New and amended standards and interpretations

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

The adoption of the standards or interpretations is described below:

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

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

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

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

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

IFRIC 17 Distributions of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IAS 24 ***Related Party Disclosures (Amendment)***
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.
If the Group loses control over a subsidiary, it:

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue recognition
i) Financing income is income from murabaha, istisna'a and wakala investments and is using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
ii) Income from leased assets is recognized on a pattern reflecting a constant periodic return on the net investment outstanding and is included under financing income.
iii) Operating lease income is recognized on a straight line basis in accordance with the lease agreement.
iv) Rental income from investment properties is recognized on an accruals basis.
v) Dividend income is recognized when the right to receive payment is established.
vi) Fee and commission income is recognized at the time the related services are provided.

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

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

Receivables
Receivables are financial assets originated by the Group and principally comprise murabaha, international murabaha, istisna'a, and wakala receivables. These are stated at amortized cost.

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)
Capitalised leased assets are depreciated over the estimated useful life of the asset.

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

Group as a lessor

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

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

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

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

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

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

Under the equity method, investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.
The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Freehold land is not depreciated. Depreciation on the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives that range from 20 - 25 years.

Properties under construction
Properties under construction or development for future use as an investment property are classified as investment properties and are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of the asset.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial year in which they are incurred.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated statement of income at fair value, being the premium received, in other liabilities. The guarantee liability is subsequently carried at initial measurement less amortization. When a payment under the guarantee is likely to become payable, the present value of the expected payments less the unamortized premium, is charged to the consolidated income of statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Fair values
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values (continued)
Fair value measurements related to items recorded at fair value to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Treasury shares
The Bank's holding of its own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in equity (treasury share reserve) which is non distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. No cash dividends are distributed on these shares. The issue of bonus shares increases the number of shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

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

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

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

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

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

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

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- an earnings multiple;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

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

3 INVESTMENT INCOME

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

4 IMPAIRMENT

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

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

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

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

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

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

6 CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

7 RECEIVABLES

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

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

The distribution of receivables is as follows:

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

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

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

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

7 RECEIVABLES (continued)

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

	Pre-invasion KD 000's	*Post liberation KD 000's*	*Total KD 000's*
2010			
Finance facilities	**6,253**	**904,602**	**910,855**
Impairment	**6,253**	**386,346**	**392,599**

	Pre-invasion KD 000's	*Post liberation KD 000's*	*Total KD 000's*
2009			
Finance facilities	6,275	690,488	696,763
Impairment	6,275	212,644	218,919

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

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

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

8 LEASED ASSETS

The net investment in leased assets comprises the following:

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

Impairment on leased assets is as follows:

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

8 LEASED ASSETS (continued)

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

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

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

9 INVESTMENTS

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

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

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

Level 1: quoted (unadjusted) prices in active markets.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

9 INVESTMENTS (continued)

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

31 December 2009	*Level 1* *KD 000's*	*Level 2* *KD 000's*	*Level 3* *KD 000's*	*Total* *KD 000's*
Quoted equity investments	79,727	-	-	79,727
Unquoted equity investments	-	-	11,949	11,949
Managed portfolios (mainly comprising quoted equity investments)	216,658	-	-	216,658
Mutual funds	-	18,921	170,591	189,512
Sukook	241,242	-	-	241,242
	537,627	18,921	182,540	739,088

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

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

10 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		***Country of registration***	***Principal activities***	***Financial statements reporting date***
	2010	***2009***			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	27	27	Kuwait	Islamic Takaful insurance	30 September 2010
Gulf Investment House K.S.C. (Closed)	20	20	Kuwait	Islamic investments	30 September 2010
Sharajah Islamic Bank P.J.S.C.	20	20	United Arab Emirates	Islamic banking services	30 September 2010
First Investment Company K.S.C. (Closed)	9	9	Kuwait	Islamic investments	30 September 2010

10 INVESTMENT IN ASSOCIATES (continued)

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
Indirect investments in associates held through consolidated subsidiaries:					
Sokouk Real Estate Development Company K.S.C. (Closed)	49	49	Kuwait	Real estate development	30 September 2010
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	25	30	Kuwait	Real estate projects management	30 September 2010
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2010
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	16	Kuwait	Leasing and Islamic investment	31 March 2010

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

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

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

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

11 INVESTMENT PROPERTIES

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

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

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

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

12 OTHER ASSETS

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

13 PROPERTY AND EQUIPMENT

	Land KD 000's	Buildings KD 000's	Aircraft and engines KD 000's	Furniture, fixtures and equipment KD 000's	Motor vehicles KD 000's	Properties under development KD 000's	**2010 Total KD 000's**	2009 Total KD 000's
Cost								
At 1 January 2010	22,790	74,905	488,071	132,228	57,192	29,992	**805,178**	718,479
Arising on consolidation	-	-	-	-	-	-	-	92,475
Additions	(2)	15,001	184,053	22,940	13,206	8,115	**243,313**	271,720
Disposals	(840)	(2,651)	(12,742)	(18,894)	(32,411)	(10,188)	**(77,726)**	(60,780)
Transfer to investment properties (Note 11)	-	-	-	-	-	(825)	**(825)**	(216,716)
At 31 December 2010	**21,948**	**87,255**	**659,382**	**136,274**	**37,987**	**27,094**	**969,940**	805,178
Accumulated depreciation								
At 1 January 2010	-	36,928	66,048	76,778	23,818	-	**203,572**	127,140
Arising on consolidation	-	-	-	-	-	-	-	40,119
Depreciation charge for the year	-	2,644	22,488	14,087	7,019	-	**46,238**	37,563
Relating to disposals	-	(2,810)	(10,336)	(6,267)	(20,593)	-	**(40,006)**	(10,880)
Impairment loss charged for the year	-	-	9,465	-	-	-	**9,465**	9,630
At 31 December 2010	-	**36,762**	**87,665**	**84,598**	**10,244**	-	**219,269**	203,572
Net carrying amount								
At 31 December 2010	**21,948**	**50,493**	**571,717**	**51,676**	**27,743**	**27,094**	**750,671**	601,606
At 31 December 2009	22,790	37,977	422,023	55,450	33,374	29,992	**601,606**	591,339

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

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

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

The gross carrying value of fully depreciated property and equipment still in use at the financial position date is KD 33,789 thousand (2009: KD 29,659 thousand).

13 PROPERTY AND EQUIPMENT (continued)

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

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

14 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

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

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

15 DEPOSITORS' ACCOUNTS

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

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

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

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

15 DEPOSITORS' ACCOUNTS (continued)

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

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

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

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

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

16 OTHER LIABILITIES

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

17 FAIR VALUE RESERVE

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

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

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

18 FOREIGN EXCHANGE TRANSLATION RESERVE

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

19 SHARE CAPITAL

a) Share capital

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

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

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

Treasury shares and treasury share reserve

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

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

Movement in treasury shares was as follows:

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

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

20 RESERVES

In the ordinary and extraordinary general assembly meeting of the equityholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers to statutory reserve in excess of 10%. The extraordinary general assembly of the Bank held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the profit for the year attributable to the equityholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank. As a result, an amount of KD 11,051 thousand equivalent to approximately 10% (2009: KD 12,393 thousand equivalent to approximately 10%), of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve.

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

2.3% (2009: 25%) of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve.

The share premium balance is not available for distribution.

21 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

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

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

22 SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

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

23 CONTINGENCIES AND COMMITMENTS

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

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

24 CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD CONTRACTS

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

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

At 31 December 2010, the Group held currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts designated as hedges of expected future collections from hedged items in foreign currency and variability in profit rate.

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

31 December 2010

				Notional amounts by term to maturity		
	Positive fair value KD 000's	***Negative fair value KD 000's***	***Contract/ Notional amount Total KD 000's***	***Within 3 months KD 000's***	***3 to 12 months KD 000's***	***More than 12 months KD 000's***
Cash flow hedges						
Forward contracts	**87**	**202**	**40,112**	**30,014**	**10,098**	**-**
Profit rate swaps	**175**	**91**	**28,716**	**-**	**-**	**28,716**
Currency swaps	**560**	**-**	**22,440**	**1,403**	**-**	**21,037**
	822	**293**	**91,268**	**31,417**	**10,098**	**49,753**
Not designated as hedges						
Forward contracts	**10,430**	**2,975**	**232,830**	**149,521**	**83,037**	**272**
Profit rate swaps	**1,793**	**3,296**	**123,091**	**-**	**-**	**123,091**
Currency swaps	**2,643**	**2,431**	**135,027**	**103,208**	**-**	**31,819**
	14,866	**8,702**	**490,948**	**252,729**	**83,037**	**155,182**
	15,688	**8,995**	**582,216**	**284,146**	**93,135**	**204,935**

24 CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD CONTRACTS (continued)

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

31 December 2010	*Contract/ Notional amount Total KD 000's*	*Within 3 months KD 000's*	*3 to 12 months KD 000's*	*More than 12 months KD 000's*
Inflows	**425,495**	**279,025**	**92,638**	**53,832**
Outflows	**430,408**	**284,145**	**93,135**	**53,128**
Net cash flows	**(4,913)**	**(5,120)**	**(497)**	**704**

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

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

31 December 2009	*Contract/ Notional amount Total KD 000's*	*Within 3 months KD 000's*	*3 to 12 months KD 000's*	*More than 12 months KD 000's*
Inflows	317,439	248,740	64,048	4,651
Outflows	(228,448)	(204,267)	(19,897)	(4,284)
Net cash flows	88,991	44,473	44,151	367

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

25 RELATED PARTY TRANSACTIONS

Certain related parties (directors and executive employees, officers of the Group, their families, associated companies and companies of which they are the principal owners) were depositors and financing facilities customers of the Bank, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk. These transactions are approved by the ordinary general assembly of the equityholders of the Bank. The balances included in the consolidated financial statements are as follows:

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

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

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

Compensation of key management personnel is as follows:

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

26 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

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

31 December 2009	*Treasury KD 000's*	*Investment KD 000's*	*Retail and corporate banking KD 000's*	*Other KD 000's*	*Total KD 000's*
Total assets	2,809,279	3,254,077	4,280,678	946,660	11,290,694
Total liabilities	1,469,963	18,489	7,400,606	397,145	9,286,203
Income	27,370	70,450	630,093	38,790	766,703
Impairment	-	(70,282)	(101,003)	(32,600)	(203,885)
Profit before distribution to depositors	22,685	(3,089)	225,849	24,149	269,594

26 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

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

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

27 CONCENTRATION OF ASSETS AND LIABILITIES

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

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

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

See Note 26 for distribution of assets by geographical areas.

(b) The distribution of liabilities was as follows:

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

28 FOREIGN CURRENCY EXPOSURE

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

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

29 RISK MANAGEMENT

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

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the Bank's Board of Directors.

a) Risk management structure

Board of Directors
The Board of Directors of the Bank is responsible for the overall risk management approach and for approving risk strategies and principles. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

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

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

b) Risk management and reporting systems

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

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

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

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

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

30 CREDIT RISK

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk without taking account of any collateral

The table 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.

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

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

30 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2010 was KD 112,518 thousands (2009: KD 133,279 thousands) before taking account of collateral which is fully covered by real estate collateral.

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

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

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

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

30 CREDIT RISK (continued)

Credit quality per class of financial assets

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

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

31 December 2009	*Neither past due nor impaired*			
	High grade 2009 KD 000's	*Standard grade 2009 KD 000's*	*Past due or impaired 2009 KD 000's*	*Total 2009 KD 000's*
Receivables:				
International murabahas	114,548	930,667	116,048	1,161,263
Local murabahas and wakala	265,022	2,797,910	662,902	3,725,834
Istisna'a and other receivables	520	113,362	89,419	203,301
	380,090	3,841,939	868,369	5,090,398
Leased assets	10,941	1,126,885	150,240	1,288,066
Investments – sukook	39,654	201,598	-	241,252
	430,685	5,170,422	1,018,609	6,619,716

30 CREDIT RISK (continued)

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

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

31 December 2009	*Less than 30 days 2009 KD 000's*	*31 to 60 days 2009 KD 000's*	*61 to 90 days 2009 KD 000's*	*Total 2009 KD 000's*
Local murabahas	152,915	123,713	57,151	333,779
Istisna'a and other receivables	34,177	33,777	8,900	76,854
Leased assets	55,674	56,520	22,453	134,647
	242,766	214,010	88,504	545,280

Collateral

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

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

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

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

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

31 LIQUIDITY RISK

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

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

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

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

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

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After one year KD 000's*	***Total KD 000's***
Assets					
Cash and balances with banks and financial institutions	447,585	-	-	-	**447,585**
Short-term murabaha	1,597,372	-	-	-	**1,597,372**
Receivables	1,372,284	973,502	1,154,330	2,045,799	**5,545,915**
Trading properties	34,727	82,018	5,628	98,853	**221,226**
Leased assets	383,018	206,478	283,276	399,931	**1,272,703**
Investments	45,347	10,413	25,008	1,102,282	**1,183,050**
Investments in associates	-	-	-	339,307	**339,307**
Investment properties	-	-	-	561,377	**561,377**
Other assets	121,773	102,922	174,072	230,526	**629,293**
Property and equipment	-	-	-	750,671	**750,671**
	4,002,106	**1,375,333**	**1,642,314**	**5,528,746**	**12,548,499**
Liabilities					
Due to banks and financial Institutions	1,127,843	512,799	202,170	368,768	**2,211,580**
Depositors' accounts	3,923,808	459,789	213,164	3,052,321	**7,649,082**
Other liabilities	156,729	38,104	253,025	154,277	**602,135**
	5,208,380	**1,010,692**	**668,359**	**3,575,366**	**10,462,797**

31 LIQUIDITY RISK (continued)

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

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

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

	On demand KD 000's	*Less than 3 months KD 000's*	*3 to 12 months KD 000's*	*1 to 5 years KD 000's*	*Over 5 years KD 000's*	*Total KD 000's*
2010						
Contingent liabilities	837,843	45,856	166,738	101,087	71,898	**1,223,422**
Commitments	303,113	51,537	139,706	38,420	804,496	**1,337,272**
Total	**1,140,956**	**97,393**	**306,444**	**139,507**	**876,394**	**2,560,694**
2009						
Contingent liabilities	728,648	34,568	87,163	186,398	64,680	1,101,457
Commitments	198,535	110,758	99,118	125,744	792,927	1,327,082
Total	927,183	145,326	186,281	312,142	857,607	2,428,539

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

32 MARKET RISK

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

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

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

Non-trading market risk

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

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2010 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of available for sale investments).

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

32 MARKET RISK (continued)

Equity price risk

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

The effect on fair value reserve (as a result of a change in the fair value of available for sale investments at 31 December 2010) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

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

Operational risk

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

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

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

33 CAPITAL MANAGEMENT

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

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

33 CAPITAL MANAGEMENT (continued)

A key Group objective is to maximise shareholder value with optimal levels of risk and to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management and are governed by guidelines of Basel Committee on Banking Supervision as adopted by the Central Bank of Kuwait. The Group's regulatory capital and capital adequacy ratios are shown below:

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

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

34 MANAGEMENT OF PURCHASED DEBTS

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

35 FINANCIAL INSTRUMENTS

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

36 FIDUCIARY ASSETS

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

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

37 COMPLIANCE WITH SHAREEA'A PRINCIPLES

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