KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74 Safat
13001 Safat, Kuwait
Baitak Tower, 18-21st Floor
Safat Square
Ahmed Al Jaber Street
Tel : 2245 2880/2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com
www.ey.com/me

Deloitte & Touche,
Al-Fahad, Al Wazzan & Co.

Fahad Al-Salem Street
Salhiya Complex, Entrance 2,
P.O. Box 23049, Safat 13091
Kuwait City, Kuwait

Ahmed Al-Jaber Street,
Dar Al-Awadi Complex, 7th Floor,
P.O. Box 20174, Safat 13062
Sharq - Kuwait

Telephone :+965 22438060
Facsimile :+965 22452080

Telephone :+965 22408844
Facsimile :+965 22408855

www.deloitte.com

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of income, consolidated 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 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements
Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, and by the Bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, or of the articles of association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2011.

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

JASSIM AHMAD AL-FAHAD
LICENCE NO. 53 A
DELOITTE & TOUCHE
AL-FAHAD, Al-WAZZAN & CO.

15 February 2012
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2011

	Notes	2011	2010
			KD 000's
INCOME			
Financing income		**523,964**	517,573
Investment income	3	**188,193**	92,287
Fee and commission income		**55,948**	65,211
Gain of foreign currencies		**3,742**	3,111
Other income	4	**100,235**	58,117
		872,082	736,299
EXPENSES			
Staff costs		**124,339**	114,131
General and administrative expenses		**101,760**	91,306
Finance costs		**53,780**	44,871
Depreciation		**79,383**	48,186
Impairment	5	**321,297**	198,633
		680,559	497,127
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		**191,523**	239,172
Distribution to depositors		**152,730**	162,866
PROFIT AFTER DISTRIBUTION		**38,793**	76,306
Contribution to Kuwait Foundation for the Advancement of Sciences		**820**	1,105
National Labor Support tax		**591**	2,582
Zakat (based on Zakat Law No. 46/2006)		**17**	679
Directors' fees	22	**260**	160
PROFIT FOR THE YEAR		**37,105**	71,780
Attributable to:			
Equityholders of the Bank		**80,342**	105,983
Non-controlling interests		**(43,237)**	(34,203)
		37,105	71,780
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	6	**30.2 fils**	39.9 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011	2010
			KD 000's
Profit before distribution to depositors		**191,523**	239,172
Other comprehensive income (loss)			
Change in fair value of financial assets available for sale	18	**(29,497)**	(32,447)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	18	**(154)**	2,973
Loss realised on financial assets available for sale during the year	18	**4,957**	6,069
Impairment losses transferred to the consolidated statement of income	18	**53,934**	16,930
Share of other comprehensive income (loss) of associates	18	**756**	(2,927)
Exchange differences on translation of foreign operations	19	**(85,303)**	2,967
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		**(55,307)**	(6,435)
Total comprehensive income before estimated distribution to depositors		**136,216**	232,737

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011	2010
		KD 000's	
ASSETS			
Cash and balances with banks and financial institutions	7	**619,554**	447,585
Short-term murabahas		**1,478,052**	1,597,372
Receivables	8	**5,864,821**	5,545,915
Trading properties		**273,686**	221,226
Leased assets	9	**1,422,442**	1,272,703
Financial assets available for sale	10	**1,302,177**	1,183,050
Investment in associates	11	**490,062**	339,307
Investment properties	12	**536,358**	561,377
Other assets	13	**705,551**	629,293
Property and equipment	14	**767,130**	750,671
TOTAL ASSETS		**13,459,833**	12,548,499
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	15	**1,818,636**	2,211,580
Depositors' accounts	16	**8,881,845**	7,649,082
Other liabilities	17	**681,673**	602,135
TOTAL LIABILITIES		**11,382,154**	10,462,797
DEFERRED REVENUE		**608,475**	515,874
FAIR VALUE RESERVE	18	**(13,003)**	(42,999)
FOREIGN EXCHANGE TRANSLATION RESERVE	19	**(74,805)**	10,498
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK			
Share capital	20	**268,904**	248,985
Share premium		**464,766**	464,766
Proposed issue of bonus shares	22	**21,512**	19,919
Treasury shares	20	**(46,813)**	(26,722)
Reserves	21	**544,361**	534,078
		1,252,730	1,241,026
Proposed cash dividend	22	**39,623**	49,304
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		**1,292,353**	1,290,330
Non-controlling interests		**264,659**	311,999
TOTAL EQUITY		**1,557,012**	1,602,329
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		**13,459,833**	12,548,499

SAMIR YAQOOB AL NAFISI
(CHAIRMAN)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

KD 000's

	Attributable to equityholders of the Bank													*Non-controlling interests*	*Total equity*
					Reserves										
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Statutory reserve*	*Voluntary reserve*	*Employee share options reserve*	*Treasury shares reserve*	*Sub total*	*Profit for the year*	*Sub total*	*Proposed cash dividend*	*Sub total*		
At 31 December 2009	230,542	464,766	18,443	(36,662)	243,237	255,999	4,237	4,398	507,871	-	1,184,960	56,857	1,241,817	324,138	1,565,955
Issue of bonus shares	18,443	-	(18,443)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(11,349)	-	-	(11,349)	-	(11,349)	-	(11,349)	-	(11,349)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	-	(56,857)
Cancellation of share option	-	-	-	-	-	-	2	-	2	-	2	-	2	-	2
Profit for the year	-	-	-	-	-	-	-	-	-	105,983	105,983	-	105,983	(34,203)	71,780
Distribution of profit:															
Proposed issue of bonus shares	-	-	19,919	-	-	-	-	-	-	(19,919)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(49,304)	(49,304)	49,304	-	-	-
Transfer to statutory reserve	-	-	-	-	11,051	-	-	-	11,051	(11,051)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	25,709	-	-	25,709	(25,709)	-	-	-	-	-
Net movement in treasury shares (Note 20)	-	-	-	9,940	-	-	-	-	-	-	9,940	-	9,940	-	9,940
Profit on sale of treasury shares	-	-	-	-	-	-	-	794	794	-	794	-	794	-	794
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	22,064	22,064
At 31 December 2010	248,985	464,766	19,919	(26,722)	254,288	270,359	4,239	5,192	534,078	-	1,241,026	49,304	1,290,330	311,999	1,602,329
Issue of bonus shares	19,919	-	(19,919)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(10,413)	-	-	(10,413)	-	(10,413)	-	(10,413)	-	(10,413)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(49,304)	(49,304)	-	(49,304)
Cancellation of share option	-	-	-	-	-	-	5	-	5	-	5	-	5	-	5
Profit for the year	-	-	-	-	-	-	-	-	-	80,342	80,342	-	80,342	(43,237)	37,105
Distribution of profit:															-
Proposed issue of bonus shares	-	-	21,512	-	-	-	-	-	-	(21,512)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(39,623)	(39,623)	39,623	-	-	-
Transfer to statutory reserve	-	-	-	-	8,203	-	-	-	8,203	(8,203)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	11,004	-	-	11,004	(11,004)	-	-	-	-	-
Net movement in treasury shares (Note 20)	-	-	-	(20,091)	-	-	-	-	-	-	(20,091)	-	(20,091)	-	(20,091)
Profit on sale of treasury shares	-	-	-	-	-	-	-	1,484	1,484	-	1,484	-	1,484	-	1,484
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,103)	(4,103)
At 31 December 2011	**268,904**	**464,766**	**21,512**	**(46,813)**	**262,491**	**270,950**	**4,244**	**6,676**	**544,361**	**-**	**1,252,730**	**39,623**	**1,292,353**	**264,659**	**1,557,012**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	*2011*	*2010*
			KD 000's
OPERATING ACTIVITIES			
Profit for the year		**37,105**	71,780
Adjustment for:			
Depreciation		**79,383**	48,186
Impairment		**321,297**	198,633
Dividend income		**(10,428)**	(9,319)
Loss (gain) on part sale of associates		**129**	(87)
Gain on sale of financial assets available for sale		**(15,364)**	(1,632)
Sukook income		**(16,061)**	(9,004)
Gain on cancellation of aircraft contract		**(29,980)**	(19,694)
Gain on sale of exploration assets		**-**	(24,516)
Share of loss of associates		**2,305**	57,492
Other investment income		**(7,310)**	(19,385)
		361,076	292,454
Changes in operating assets and liabilities			
(Increase) decrease in operating assets:			
Receivables		**(572,922)**	(586,985)
Trading properties		**(66,264)**	(146,567)
Leased assets		**(148,395)**	(5,240)
Other assets		**(115,890)**	(94,341)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**(392,944)**	750,655
Depositors' accounts		**1,232,763**	387,254
Other liabilities		**73,916**	55,879
Net cash from operating activities		**371,340**	653,109
INVESTING ACTIVITIES			
Purchase of financial assets available for sale, net		**(322,641)**	(147,327)
Purchase of investment properties		**(125,447)**	(128,608)
Proceeds from sale of investment properties		**128,002**	83,654
Purchase of property and equipment		**(153,139)**	(243,313)
Proceeds from sale of property and equipment		**82,519**	39,370
Purchase of investments in associates		**(14,902)**	(22,899)
Proceeds from sale of investments in associates		**9,451**	20,876
Sukook income received		**16,061**	9,004
Cash proceeds from cancellation of aircraft contracts		**29,980**	20,067
Proceeds from sale of exploration assets		**-**	34,911
Dividend income received		**13,155**	11,848
Net cash used in investing activities		**(336,961)**	(322,417)
FINANCING ACTIVITIES			
Cash dividends paid		**(49,304)**	(56,857)
Cash received on cancellation of share options		**5**	2
Payment of Zakat		**(11,092)**	(11,349)
Net movement in treasury shares		**(18,607)**	10,734
Net cash used in financing activities		**(78,998)**	(57,470)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(44,619)**	273,222
Cash and cash equivalents at 1 January		**1,519,915**	1,246,693
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	**1,475,296**	1,519,915

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 2011 were authorized for issue by the Chairman on 15 February 2012 in accordance with a resolution of the Bank's Board of Directors on 15 January 2012 and are subject to approval by the Central Bank of Kuwait. The general assembly of the equityholders of the Bank has the power to amend these consolidated financial statements after issuance.

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

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

The Bank operates through 54 local branches (2010: 52) and employed 2,278 employees as of 31 December 2011 (2010: 2,153) of which 1,423 (2010: 1,327) are Kuwaiti nationals representing 62% (2010: 62%) of the Bank's total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2011. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

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

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The amendment of the interpretation has had no effect on the financial position or the performance of the Group.

Improvements to IFRSs
The IASB issued its third omnibus of amendments to its standards in May 2010, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards, IFRSs and IFRIC Interpretations issued, but not yet adopted (continued)

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

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 "*Interests in Joint Ventures*". The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The standard has no significant effect on the financial position or performance of the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards, IFRSs and IFRIC Interpretations issued, but not yet adopted (continued)

IFRS 13 Fair Value Measurement

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

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

The amendment becomes effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "*Investments in Associates and Joint Ventures*", and describes the application of the equity method to investments in joint ventures in addition to associates. The standard has no effect on the financial position or performance of the Group.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2011 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 23. All significant intra-group balances, transactions and unrealized gains or losses resulting from intra group transactions and dividends are eliminated in full.

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

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

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

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

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

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

Business combinations and goodwill

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 BASIS OF CONSOLIDATION (continued)

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

Trade receivable
Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. These are included in other assets (Note 13).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Derecognition of financial assets and financial liabilities
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts to mitigate exposure to foreign currency risk in forecasted transactions and firm commitments.

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

The resultant gains and losses from the instruments are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts (continued)
Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances (continued)
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item.

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

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

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

Trade payable
Trade payable relates to non financial subsidiaries of the Group. Liabilities are recognized for amounts to be paid in the future for goods whether or not billed to the Group.

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

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty

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

Impairment losses on finance facilities

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

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined (see note 10). As a result, these investments are carried at cost less impairment.

3 INVESTMENT INCOME

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

4 OTHER INCOME

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

5 IMPAIRMENT

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

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

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

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

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

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

7 CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

8 RECEIVABLES

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

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

The distribution of receivables is as follows:

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

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

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

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

8 RECEIVABLES (continued)

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

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

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

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

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

9 LEASED ASSETS

The net investment in leased assets comprises the following:

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

Impairment on leased assets is as follows:

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

9 LEASED ASSETS (continued)

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

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

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

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

10 FINANCIAL ASSETS AVAILABLE FOR SALE

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

Included in managed portfolios is an amount of KD 35,557 thousand (2010: KD 35,425 thousand) which represents the Group's investment in 34,115 thousand shares (2010: 30,533 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.27% of the total issued share capital at 31 December 2011 (2010: 1.23%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

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

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

10 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

				KD 000's
	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2011				
Quoted equity investments	**54,912**	**-**	**-**	**54,912**
Unquoted equity investments	**-**	**-**	**81,441**	**81,441**
Managed portfolios (mainly comprising quoted equity investments)	**205,336**	**10,308**	**17,967**	**233,611**
Mutual funds	**-**	**15,705**	**111,081**	**126,786**
Sukook	**302,581**	**54,899**	**-**	**357,480**
	562,829	**80,912**	**210,489**	**854,230**
31 December 2010				
Quoted equity investments	61,309	-	-	61,309
Unquoted equity investments	-	-	54,455	54,455
Managed portfolios (mainly comprising quoted equity investments)	216,358	4,356	18,811	239,525
Mutual funds	-	18,172	116,656	134,828
Sukook	316,932	-	-	316,932
	594,599	22,528	189,922	807,049

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

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

No transfers have been made between levels of hierarchy.

11 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2011	*2010*			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	**28**	28	Kuwait	Islamic Takaful insurance	30 September 2011
Gulf Investment House K.S.C. (Closed)	**20**	20	Kuwait	Islamic investments	30 September 2011
Sharjah Islamic Bank P.J.S.C.	**20**	20	United Arab Emirates	Islamic banking services	30 September 2011
First Investment Company K.S.C. (Closed)	**9**	9	Kuwait	Islamic investments	30 September 2011
Specialties Group Holding Company K.S.C. (Closed)	**30**	30	Kuwait	Holding investments	30 September 2011

11 INVESTMENT IN ASSOCIATES (continued)

	Interest in equity % 2011	2010	*Country of registration*	*Principal activities*	*Financial statements reporting date*
Indirect investments in associates held through consolidated subsidiaries					
Diyar Al Muharraq W.L.L	**52**	-	Bahrain	Real estate development	31 December 2011
Sukook Real Estate Development Company K.S.C. (Closed)	**49**	49	Kuwait	Real estate development	30 September 2011
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	**25**	25	Kuwait	Real estate projects management	30 September 2011
Liquidity Management Centre Company B.S.C. (Closed)	**25**	25	Bahrain	Islamic banking and financial services	30 September 2011
Yiaco Medical Company K.S.C. (Closed)	**25**	33	Kuwait	Medical, chemical, and dental products & equipment	30 September 2011

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

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

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

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

12 INVESTMENT PROPERTIES

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

12 INVESTMENT PROPERTIES (continued)

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

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

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

13 OTHER ASSETS

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

14 PROPERTY AND EQUIPMENT

KD 000's

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

14 PROPERTY AND EQUIPMENT (continued)

KD 000's

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

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

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

One of the subsidiaries holds a fleet of aircraft with carrying value of KD 497,798 thousand (2010: KD 432,649 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender (Note 15). The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 26% (2010: 29%) in aggregate of the purchase cost of the aircraft fleet.

The gross carrying value of fully depreciated property and equipment still in use at the financial position date is KD 46,857 thousand (2010: KD 42,538 thousand).

14 PROPERTY AND EQUIPMENT (continued)

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

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

15 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

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

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

16 DEPOSITORS' ACCOUNTS

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

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

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

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

   The Bank generally invests approximately 100% of investment deposits for unlimited period ("Khumasia"), 90% of investment deposits for an unlimited period ("Mustamera"), 70% of investment deposits for an unlimited period ("Sedra") and 60% of investment saving accounts ("Tawfeer"). The Bank guarantees to pay the remaining uninvested portion of these investment deposits. Accordingly, this portion is considered Qard Hasan from depositors to the Bank, under Islamic Shareea'a. Investing such Qard Hasan is made at the discretion of the Board of Directors of the Bank, the results of which are attributable to the equityholders of the Bank.

16 DEPOSITORS' ACCOUNTS (continued)

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

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

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

17 OTHER LIABILITIES

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

18 FAIR VALUE RESERVE

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

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

19 FOREIGN EXCHANGE TRANSLATION RESERVE

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

20 SHARE CAPITAL

Share capital

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

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

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

Treasury shares and treasury share reserve.

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

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

Movement in treasury shares was as follows:

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

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

21 RESERVES

In the ordinary and extraordinary general assembly meeting of the equityholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers to statutory reserve in excess of 10%. The extraordinary general assembly of the Bank held on 18 March 1996 approved an amendment to article 58 of its articles of association, in which the Ordinary General Assembly can approve an increase in the transfer of 10% each of the profit for the year attributable to the equityholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank.

As a result, an amount of KD 8,203 thousand equivalent to approximately10% (2010: KD 11,051 thousand equivalent to approximately 10%), of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve to reach KD 262,491 thousand (2010: KD 254,288 thousand).

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

An amount of KD 11,004 thousand equivalent to 13% (2010: KD 25,709 thousand equivalent to 23%) of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve to reach KD 270,950 thousand (2010: KD 270,359 thousand).

The share premium balance is not available for distribution.

22 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 15% for the year ended 31 December 2011 (2010: 20%) and issuance of bonus shares of 8% (2010: 8%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equityholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 260 thousand (2010: KD 160 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equityholders of the Bank.

23 SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

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

24 CONTINGENCIES AND CAPITAL COMMITMENTS

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

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

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

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

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

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

At 31 December 2011, the Group held currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts designated as hedges of expected future collections from hedged items in foreign currency and variability in profit rate.

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

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

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

	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity*		***KD 000's***
				Within 3 months	*3 to 12 months*	*More than 12 months*
31 December 2010						
Cash flow hedges						
Forward contracts	87	202	40,112	30,014	10,098	-
Profit rate swaps	175	91	28,716	-	-	28,716
Currency swaps	560	-	22,440	1,403	-	21,037
	822	293	91,268	31,417	10,098	49,753
Not designated as hedges						
Forward contracts	10,430	2,975	232,830	149,521	83,037	272
Profit rate swaps	1,793	3,296	123,091	-	-	123,091
Currency swaps	2,643	2,431	135,027	103,208	-	31,819
	14,866	8,702	490,948	252,729	83,037	155,182
	15,688	8,995	582,216	284,146	93,135	204,935

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

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

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

26 RELATED PARTY TRANSACTIONS

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

KD 000's

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

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

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

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

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

27 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

	Treasury	*Investment*	*Banking*	*Other*	*KD 000's Total*
31 December 2011					
Total assets	**3,702,832**	**3,442,540**	**4,915,332**	**1,399,129**	**13,459,833**
Total liabilities	**2,044,983**	**143,117**	**8,746,134**	**447,920**	**11,382,154**
Income	**55,315**	**112,568**	**551,938**	**152,261**	**872,082**
Impairment	**560**	**(112,343)**	**(198,095)**	**(11,419)**	**(321,297)**
Finance costs	**(29,083)**	**(13,236)**	**-**	**(11,461)**	**(53,780)**
Profit before distribution to depositors	**41,431**	**(68,886)**	**193,481**	**25,497**	**191,523**
31 December 2010					
Total assets	3,213,236	3,692,310	4,530,962	1,111,991	12,548,499
Total liabilities	2,215,127	16,653	7,861,355	369,662	10,462,797
Income	31,356	63,111	599,463	42,369	736,299
Impairment	-	(57,361)	(108,266)	(33,006)	(198,633)
Finance costs	(27,486)	(8,002)	-	(9,383)	(44,871)
Profit before distribution to depositors	26,918	(3,998)	197,145	19,107	239,172

27 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

	Assets		*Liabilities*		*Contingencies and capital commitments*	
						KD 000's
	2011	*2010*	***2011***	*2010*	***2011***	*2010*
Geographical areas:						
The Middle East	**9,395,665**	8,507,487	**8,419,842**	7,747,858	**411,279**	437,671
North America	**243,756**	217,323	**78,986**	36,957	**326,136**	566,635
Western Europe	**501,791**	541,906	**411,247**	421,490	**917,048**	319,384
Other	**3,318,621**	3,281,783	**2,472,079**	2,256,492	**1,027,924**	1,237,004
	13,459,833	12,548,499	**11,382,154**	10,462,797	**2,682,387**	2,560,694

	Local		*International*		*Total*	
						KD 000's
	2011	*2010*	***2011***	*2010*	***2011***	*2010*
Income	**477,179**	397,217	**394,903**	339,082	**872,082**	736,299
Profit before distribution to depositors	**114,250**	164,896	**77,273**	74,276	**191,523**	239,172

28 CONCENTRATION OF ASSETS AND LIABILITIES

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

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

	2011	*2010*
		KD 000's
Trading and manufacturing	**3,036,688**	2,611,373
Banks and financial institutions	**3,912,080**	3,527,637
Construction and real estate	**3,682,863**	3,726,968
Other	**2,828,202**	2,682,521
	13,459,833	12,548,499

28 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(b) The distribution of liabilities was as follows:

	2011			*2010*		*KD 000's*
	Banking	***Non-banking***	***Total***	*Banking*	*Non-banking*	*Total*
Geographic region						
The Middle East	**8,218,084**	**201,758**	**8,419,842**	7,618,052	129,806	7,747,858
North America	**2,296**	**76,690**	**78,986**	112	36,845	36,957
Western Europe	**70,846**	**340,401**	**411,247**	60,381	361,109	421,490
Other	**2,420,439**	**51,640**	**2,472,079**	2,145,085	111,407	2,256,492
	10,711,665	**670,489**	**11,382,154**	9,823,630	639,167	10,462,797

29 FOREIGN CURRENCY EXPOSURE

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

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

30 RISK MANAGEMENT

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

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

a) Risk management structure

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

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

Risk management 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.

30 RISK MANAGEMENT (continued)

a) Risk management structure (continued)

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

b) Risk management and reporting systems

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

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

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

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

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

31 CREDIT RISK

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

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

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

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements.

31 CREDIT RISK (continued)

Maximum exposure to credit risk without taking account of any collateral (continued)

Gross maximum credit risk exposure	*Notes*	*KD 000's* *2011*	*2010*
Balances with banks and financial institutions		**527,565**	389,460
Short-term murabaha		**1,478,052**	1,597,372
Receivables	8	**5,864,821**	5,545,915
Leased assets	9	**1,422,442**	1,272,703
Financial assets available for sale – Sukook	10	**463,899**	381,344
Other assets – trade receivable	13	**149,254**	194,292
Total		**9,906,033**	9,381,086
Contingent liabilities	24	**1,137,634**	1,223,422
Commitments	24	**1,544,753**	1,337,272
Total		**2,682,387**	2,560,694
Total credit risk exposure		**12,588,420**	11,941,780

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

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2011 was KD 102,724 thousands (2010: KD 112,518 thousands) before taking account of collateral which is fully covered by real estate collateral.

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

						KD 000's
	2011			*2010*		
	Banking	***Non-banking***	***Total***	*Banking*	*Non-banking*	*Total*
The Middle East	**6,510,144**	**172,220**	**6,682,364**	6,237,177	153,040	6,390,217
North America	**49,886**	**102,610**	**152,496**	45,181	108,579	153,760
Western Europe	**103,800**	**11,672**	**115,472**	153,769	6,276	160,045
Other	**2,920,339**	**35,362**	**2,955,701**	2,634,686	42,378	2,677,064
	9,584,169	**321,864**	**9,906,033**	9,070,813	310,273	9,381,086

31 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk (continued)
An industry sector analysis of the Group's financial assets, before taking into account collateral held is as follows:

	2011			*2010*		*KD 000's*
	Banking	***Non-banking***	***Total***	*Banking*	*Non-banking*	*Total*
Trading and Manufacturing	**2,700,120**	**25,045**	**2,725,165**	2,237,125	35,560	2,272,685
Banks and financial Institutions	**2,711,811**	**73,517**	**2,785,328**	2,414,517	106,851	2,521,368
Construction and real Estate	**2,750,949**	**149,035**	**2,899,984**	2,856,187	65,226	2,921,413
Other	**1,421,289**	**74,267**	**1,495,556**	1,562,984	102,636	1,665,620
	9,584,169	**321,864**	**9,906,033**	9,070,813	310,273	9,381,086

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

	Neither past due nor impaired			*KD 000's*
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2011				
Receivables:				
International murabahas	**209,570**	**1,552,453**	**70,107**	**1,832,130**
Local murabahas and wakala	**-**	**3,346,302**	**553,156**	**3,899,458**
Istisna'a and other receivables	**248**	**111,434**	**21,551**	**133,233**
	209,818	**5,010,189**	**644,814**	**5,864,821**
Leased assets (Note 9)	**-**	**1,124,735**	**297,707**	**1,422,442**
Financial assets available for sale – sukook (Note10)	**150,426**	**271,376**	**42,097**	**463,899**
	360,244	**6,406,300**	**984,618**	**7,751,162**
31 December 2010				
Receivables:				
International murabahas	158,448	991,087	248,410	1,397,945
Local murabahas and wakala	-	3,377,174	613,620	3,990,794
Istisna'a and other receivables	248	101,606	55,322	157,176
	158,696	4,469,867	917,352	5,545,915
Leased assets (Note 9)	-	1,172,675	100,028	1,272,703
Financial assets available for sale – sukook (Note10)	131,857	249,487	-	381,344
	290,553	5,892,029	1,017,380	7,199,962

31 CREDIT RISK (continued)

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

	Less than 30 days	*31 to 60 days*	*61 to 90 days*	*Total*
				KD 000's
31 December 2011				
Local murabahas	**235,400**	**109,038**	**48,009**	**392,447**
Istisna'a and other receivables	**35,418**	**250**	**172**	**35,840**
Leased assets	**19,547**	**45,799**	**20,502**	**85,848**
	290,365	**155,087**	**68,683**	**514,135**
31 December 2010				
Local murabahas	222,294	75,562	61,259	359,115
Istisna'a and other receivables	47,063	256	2,258	49,577
Leased assets	46,117	27,552	22,914	96,583
	315,474	103,370	86,431	505,275

Collateral

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

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

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

The fair value of collateral that the Group holds relating to finance facilities individually determined to be past due or impaired at 31 December 2011 amounts to KD 252,901 thousand (2010: KD 274,884 thousand).

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

32 LIQUIDITY RISK

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

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

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

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

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

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

32 LIQUIDITY RISK (continued)

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

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

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

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*KD 000's* *Total*
2011						
Contingent liabilities	**434,224**	**232,630**	**228,363**	**198,797**	**43,620**	**1,137,634**
Capital Commitments	**283,563**	**655**	**12,364**	**37,218**	**1,210,953**	**1,544,753**
Total	**717,787**	**233,285**	**240,727**	**236,015**	**1,254,573**	**2,682,387**
2010						
Contingent liabilities	510,520	176,420	263,900	231,908	40,674	1,223,422
Capital Commitments	303,113	51,537	139,706	38,420	804,496	1,337,272
Total	813,633	227,957	403,606	270,328	845,170	2,560,694

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

33 MARKET RISK

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

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

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

Non-trading market risk

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

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

KD 000's

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

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

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

KD 000's

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

33 MARKET RISK (continued)

Operational risk

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

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

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

34 CAPITAL MANAGEMENT

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

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

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

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

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

The disclosures relating to the capital adequacy regulations issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/RBA/44/2009 dated 15 June 2009.

35 MANAGEMENT OF PURCHASED DEBTS

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

36 FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group uses primary financial instruments such as cash and balances with or due to Banks and other financial institutions, investments, receivables and payables. The Group also uses currency swaps and profit rate swaps and forward foreign exchange contracts for hedging purposes. Information about fair values of financial assets and liabilities are disclosed in the respective notes to the consolidated financial statements.

37 FIDUCIARY ASSETS

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

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