KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

Ernst & Young

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012 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 as 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 2012, 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 ("CBK") as stipulated in CBK Circular No. 2/RBA/44/2009 dated 15 June 2009, as amended, the Companies Law No. 25 of 2012, 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 CBK as stipulated in CBK Circular No. 2/RBA/44/2009 dated 15 June 2009, as amended, the Companies Law No. 25 of 2012, nor of the Articles of Association have occurred during the year ended 31 December 2012 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 CBK and the organisation of banking business, and its related regulations, during the year ended 31 December 2012.

WALEED A. AL OSAIMI	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62 A
ERNST & YOUNG	DELOITTE & TOUCHE
AL AIBAN, AL OSAIMI & PARTNERS	AL-FAHAD Al-WAZZAN & CO.

17 February 2013
Kuwait

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2012

	Notes	2012 KD 000's	2011 KD 000's
INCOME			
Financing income		**573,515**	523,964
Investment income	4	**230,924**	188,193
Fee and commission income		**72,705**	55,948
Gain of foreign currencies		**19,538**	3,742
Other income	5	**36,118**	100,235
		932,800	872,082
EXPENSES			
Staff costs		**134,595**	124,339
General and administrative expenses		**113,590**	101,760
Finance costs		**59,137**	53,780
Depreciation		**72,523**	79,383
Impairment	6	**255,348**	321,297
		635,193	680,559
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		**297,607**	191,523
Distribution to depositors		**171,085**	152,730
PROFIT AFTER DISTRIBUTION		**126,522**	38,793
Contribution to Kuwait Foundation for the Advancement of Sciences		**909**	820
National Labor Support tax		**1,077**	591
Zakat (based on Zakat Law No. 46/2006)		**309**	17
Directors' fees	23	**905**	260
PROFIT FOR THE YEAR		**123,322**	37,105
Attributable to:			
Equityholders of the Bank		**87,676**	80,342
Non-controlling interests		**35,646**	(43,237)
		123,322	37,105
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	7	**30.80 fils**	28.02 fils

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 KD 000's	2011
Profit before distribution to depositors		**297,607**	191,523
Other comprehensive income (loss)			
Change in fair value of financial assets available for sale	19	**(29,576)**	(29,497)
Change in fair value of currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts	19	**1,337**	(154)
Loss realised on financial assets available for sale during the year	19	**1,883**	4,957
Impairment losses transferred to the consolidated statement of income	19	**39,071**	53,934
Share of other comprehensive income of associates	19	**14**	756
Exchange differences on translation of foreign operations	20	**21,332**	(85,303)
Other comprehensive income (loss) for the year included directly in fair value reserve and foreign exchange translation reserve		**34,061**	(55,307)
Total comprehensive income before estimated distribution to depositors		**331,668**	136,216

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	*KD 000's* *2012*	*2011*
ASSETS			
Cash and balances with banks and financial institutions	8	**814,256**	619,554
Short-term murabahas		**1,185,723**	1,478,052
Receivables	9	**6,652,918**	5,864,821
Trading properties		**255,925**	273,686
Leased assets	10	**1,653,510**	1,422,442
Financial assets available for sale	11	**1,376,260**	1,302,177
Investment in associates	12	**452,832**	490,062
Investment properties	13	**557,264**	536,358
Other assets	14	**1,020,937**	705,551
Property and equipment	15	**733,676**	767,130
TOTAL ASSETS		**14,703,301**	13,459,833
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	16	**2,254,850**	1,818,636
Depositors' accounts	17	**9,392,676**	8,881,845
Other liabilities	18	**734,985**	681,673
TOTAL LIABILITIES		**12,382,511**	11,382,154
DEFERRED REVENUE		**744,041**	608,475
FAIR VALUE RESERVE	19	**(9,194)**	(13,003)
FOREIGN EXCHANGE TRANSLATION RESERVE	20	**(53,473)**	(74,805)
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK			
Share capital	21	**290,416**	268,904
Share premium		**464,766**	464,766
Proposed issue of bonus shares	23	**29,042**	21,512
Treasury shares	21	**(54,028)**	(46,813)
Reserves	22	**569,473**	544,361
		1,299,669	1,252,730
Proposed cash dividend	23	**28,429**	39,623
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		**1,328,098**	1,292,353
Non-controlling interests		**311,318**	264,659
TOTAL EQUITY		**1,639,416**	1,557,012
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		**14,703,301**	13,459,833

MOHAMMED ALI AL-KHUDAIRI
(CHAIRMAN)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 39 form part of these consolidated financial statements.

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

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 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 21)	-	-	-	(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
Issue of bonus shares	21,512	-	(21,512)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(5,095)	-	-	(5,095)	-	(5,095)	-	(5,095)	-	(5,095)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(39,623)	(39,623)	-	(39,623)
Cancellation of share option	-	-	-	-	-	-	2	-	2	-	2	-	2	-	2
Profit for the year	-	-	-	-	-	-	-	-	-	87,676	87,676	-	87,676	35,646	123,322
Distribution of profit:															-
Proposed issue of bonus shares	-	-	29,042	-	-	-	-	-	-	(29,042)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(28,429)	(28,429)	28,429	-	-	-
Transfer to statutory reserve	-	-	-	-	9,087	-	-	-	9,087	(9,087)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	21,118	-	-	21,118	(21,118)	-	-	-	-	-
Net movement in treasury shares (Note 21)	-	-	-	(7,215)	-	-	-	-	-	-	(7,215)	-	(7,215)	-	(7,215)
Non-controlling interest arising on a business combination (Note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	33,691	33,691
Acquisition of non-controlling interest (Note 24)	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,807)	(14,807)
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,871)	(7,871)
At 31 December 2012	**290,416**	**464,766**	**29,042**	**(54,028)**	**271,578**	**286,973**	**4,246**	**6,676**	**569,473**	-	**1,299,669**	**28,429**	**1,328,098**	**311,318**	**1,639,416**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2012

	Notes	2012	2011
		KD 000's	
OPERATING ACTIVITIES			
Profit for the year		**123,322**	37,105
Adjustment for:			
Depreciation		**72,523**	79,383
Impairment	6	**255,348**	321,297
Dividend income	4	**(14,027)**	(10,428)
(Gain) loss on part sale of associates	4	**(4,269)**	129
Gain on sale of financial assets available for sale	4	**(34,581)**	(15,364)
Sukook income	4	**(19,388)**	(16,061)
Gain on cancellation of aircraft contract	4	**(7,043)**	(29,980)
Gain on settlement of pre existing transactions between the Group and acquiree companies	4	**(34,884)**	-
Gain on bargain purchase	4	**(14,285)**	-
Loss on remeasurement of previously held equity	4	**5,353**	-
Share of (loss) result of associates	4	**(1,636)**	2,305
Other investment income	4	**(4,058)**	(7,310)
		322,375	361,076
Changes in operating assets and liabilities			
(Increase) decrease in operating assets:			
Receivables		**(903,811)**	(572,922)
Trading properties		**20,695**	(66,264)
Leased assets		**(226,321)**	(148,395)
Other assets		**(310,604)**	(115,890)
Statutory deposit with Central Banks		**(212,317)**	(106,781)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**436,214**	(392,944)
Depositors' accounts		**510,831**	1,232,763
Other liabilities		**89,809**	73,916
Net cash (used in) from operating activities		**(273,129)**	264,559
INVESTING ACTIVITIES			
Purchase of financial assets available for sale, net		**(37,173)**	(322,641)
Purchase of investment properties		**(244,590)**	(125,447)
Proceeds from sale of investment properties		**198,057**	128,002
Purchase of property and equipment		**(87,423)**	(153,139)
Proceeds from sale of property and equipment		**46,274**	82,519
Purchase of investments in associates		**(81,190)**	(14,902)
Proceeds from sale of investments in associates		**116,771**	9,451
Sukook income received	4	**19,388**	16,061
Cash proceeds from cancellation of aircraft contracts	4	**7,043**	29,980
Dividend income received		**35,477**	13,155
Net cash used in investing activities		**(27,366)**	(336,961)
FINANCING ACTIVITIES			
Cash dividends paid		**(39,623)**	(49,304)
Cash received on cancellation of share options		**2**	5
Payment of Zakat		**(5,095)**	(11,092)
Net movement in treasury shares		**(7,215)**	(18,607)
Acquisition of non-controlling interest	24	**(23,727)**	-
Net cash used in financing activities		**(75,658)**	(78,998)
DECREASE IN CASH AND CASH EQUIVALENTS		**(376,153)**	(151,400)
Cash and cash equivalents at 1 January		**1,368,515**	1,519,915
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	**992,362**	1,368,515

The attached notes 1 to 39 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue by the Chairman on 17 February 2013 in accordance with a resolution of the Bank's Board of Directors on 14 January 2013. 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 24. 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 56 local branches (2011: 54) and employed 2,408 employees as of 31 December 2012 (2011: 2,278) of which 1,496 (2011: 1,423) are Kuwaiti nationals representing 62% (2011: 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, forward foreign exchange and forward commodity 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 2012. 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 12* *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- *IFRS 1* *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments)*
- *IFRS 7* *Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements*

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments)
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

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 consolidated financial position or performance.

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

IAS 19 Employee Benefits (Revised)
Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)
The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance and become effective for annual periods beginning on or after 1 January 2014.

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 7 Disclosures: Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's consolidated financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance and become effective for annual periods beginning on or after 1 January 2013.

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 is currently assessing the impact that this standard will have on the consolidated financial position and performance.

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 consolidated 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 Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

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 consolidated 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 Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2012 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 24. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 one year of the financial position date. These are stated at amortized cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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 4). This is the profit attributable to equityholders 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 are 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. This is included in other assets (Note 14).

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.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)
Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)
Financial assets available for sale (continued)
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 estimates 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.

The following assets have specific characteristics for impairment testing:

Goodwill
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

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 as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

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 consolidated 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 investment properties, fair value is determined by independent registered real estate valuers which have relevant experience in the property market.

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 executive 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 subsidiaries 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 subsidiary, the component of other comprehensive income relating to that particular is recognized in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign subsidiary 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 subsidiary 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
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. 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:

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.

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.

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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 consolidated 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 11). As a result, these investments are carried at cost less impairment.

3 BUSINESS COMBINATION

On 27 December 2012, one of the indirect associates of the Group namely Sokouk Holding Company K.S.C. (Closed) ('Sokouk"), a shareholding company incorporated in the State of Kuwait and listed on Kuwait Stock Exchange, purchased its own shares ("treasury shares") from the Kuwait Stock Exchange. As a result, the Group's effective equity interest in Sokouk has increased from 48.88% to 50.62% based on net issued capital (net of treasury shares). Since this transaction meets the criteria of IFRS 3 – Business Combination for the business combination achieved without the transfer of consideration, the Group has reclassified its investment in Sokouk from investment in associate to investment in subsidiary and consolidated Sokouk and its subsidiaries from the effective date of control. The main objective of Sokouk is to own, sell and purchase real estate, and to manage properties on behalf of other parties.

As a result of Sokouk becoming the subsidiary of the Group, the following entities also became subsidiaries of the Group and have been consolidated from the effective date of control:

	Previously held equity interest by the Group	*Additional interest through Sokouk*	*Additional interest through Munshaat*	*Post acquisition equity interest*
Munshaat Real Estate Projects Company K.S.C (Closed) ("Munshaat")	25.24%	27.67%	-	52.91%
Qitaf GCC Real Estate Fund ("Qitaf")	44.91%	36.43%	9.13%	90.47%

Munshaat is incorporated in the State of Kuwait and listed on Kuwait Stock Exchange. The main objective of Munshaat is to own, sell and purchase real estate, and to manage properties on behalf of other parties.

Qitaf is incorporated in the State of Kuwait and is established to facilitate the acquisition of real estate assets as well as indirect real estate investment in the form of shares in real estate project companies in the GCC countries.

3 BUSINESS COMBINATION (continued)

The business combinations of Sokouk, Munshaat and Qitaf (together referred to as "acquiree companies") were achieved in stages. Accordingly, the Group recognized a net gain of KD 40,369 thousand representing the net after loss on remeasurement of previously held equity interests at the acquisition date fair value, gain on bargain purchase and gain on effective settlement of pre-existing transactions between the Group and acquiree companies as part of business combination (i.e. KD 20,776 thousand due to the settlement of receivables between Group and Munshaat and KD 14,108 thousand due to the settlement of KD 43,398 thousand receivables between Sokouk and Munshaat), in the consolidated income statement. Net gain attributable to equityholders of Parent Bank amounting to KD 17,447 thousand

The acquisitions have been accounted based on the provisional values assigned to the identifiable assets and liabilities of the acquiree companies as on the acquisition date and the management is in the process of determining the fair values of assets and liabilities acquired.

The Group recorded the identifiable assets and liabilities of acquire companies at their provisional fair values as at 30 September 2012 due to the unavailability of the financial information as at 27 December 2012. Based on the Group management's assessment there is no significant change in the provisional fair values of identifiable assets and liabilities of acquiree companies between 30 September 2012 and the date of acquisition.

The details of the provisional values of the assets acquired and liabilities assumed, equivalent to their carrying values, at 30 September 2012, as well as the non-controlling interest at the fair value of the acquiree companies identifiable net assets, are summarised as follows:

				KD 000's
	Sokouk	*Munshaat*	*Qitaf*	*Total*
Assets				
Cash and cash equivalents	2,319	14,498	364	17,181
Accounts receivable and other assets	31,478	25,249	125	56,852
Inventories	5,399	-	-	5,399
Financial assets available for sale	8,357	8,890	-	17,247
Investment properties	-	36,763	-	36,763
Investment in associates and joint ventures	9,170	3,507	-	12,677
Real Estate development projects	16,211	-	-	16,211
Intangible assets - leasehold rights (Note 14)	-	114,772	11,325	126,097
Property and equipment	-	862	-	862
	72,934	**204,541**	**11,814**	**289,289**
Liabilities				
Finance payables	15,831	76,852	2,142	94,825
Accounts payable and other liabilities	3,246	99,134	6	102,386
Obligations under finance leases	-	1,697	-	1,697
	19,077	**177,683**	**2,148**	**198,908**
Net assets acquired	**53,857**	**26,858**	**9,666**	**90,381**
Non-controlling interests in the acquiree at fair value	23,450	9,320	921	33,691
Fair value of acquirer's previously held interest	25,771	11,336	8,745	45,852
Gain on bargain purchase (Note 4)	4,636	6,202	-	10,838
Gain on settlement of pre-existing transactions between the Group and acquiree companies (Note 4)	-	34,884	-	34,884
Loss on remeasurement of previously held equity interests (Note 4)	(3,350)	(2,003)	-	(5,353)
Net gain on business combination	**1,286**	**39,083**	-	**40,369**

The share of results from Munshaat and Sokouk up to 30 September 2012 amounting to KD 1,356 thousand has been recorded as share of results of associates in the consolidated income statement.

4 INVESTMENT INCOME

	2012	2011
	KD 000's	
Gain on sale of real estate properties	**88,703**	97,079
Rental income from investment properties	**13,403**	14,405
Dividend income	**14,027**	10,428
Gain (loss) on part sale of associates	**4,269**	(129)
Gain on sale of financial assets available for sale	**34,581**	15,364
Share of results (loss) of associates (Note 12)	**1,636**	(2,305)
Sukook income	**19,388**	16,061
Gain on cancellation of aircraft contract	**7,043**	29,980
Gain on bargain purchase (Notes 3,12)	**14,285**	-
Gain of settlement of pre existing transactions between the Group and acquiree companies (Note 3)	**34,884**	-
Loss on remeasurement of previously held equity (Note 3)	**(5,353)**	-
Other investment income	**4,058**	7,310
	230,924	188,193

5 OTHER INCOME

	2012	2011
	KD 000's	
Gain on sale of property and equipment	**6,689**	20,163
Income from maintenance, services, and consultancy	**16,171**	27,374
Rental income from operating lease	**8,466**	7,255
Credit tax income	**-**	16,240
Real estate development and construction income	**437**	6,250
Other income	**4,355**	22,953
	36,118	100,235

6 IMPAIRMENT

	2012	2011
	KD 000's	
Relating to receivables:		
International murabahas	**9,383**	17,763
Local murabahas and wakala	**173,229**	154,533
Istisna'a and other receivables	**1,368**	544
	183,980	172,840
(Reversal of) leased assets (Note 10)	**(4,747)**	(1,345)
Impairment of financial assets available for sale	**39,071**	95,770
Impairment of associates	**16,382**	1,310
Impairment of investment properties (Note 13)	**19,426**	(2,601)
(Reversal of) write down to net realizable value of trading properties	**(2,934)**	13,804
Impairment of property and equipment (Note 15)	**8,281**	1,732
Impairment of goodwill	**573**	-
Impairment of non cash facilities	**671**	2,044
Impairment of advance for purchase of real estate	**-**	27,624
(Reversal of) impairment of other assets	**(5,355)**	10,119
	255,348	321,297

7 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.

	2012	*2011*
Profit for the year attributable to the equityholders of the Bank (KD thousands)	**87,676**	80,342
Weighted average number of shares outstanding during the year (thousand shares)	**2,846,990**	**2,867,703**
Basic and diluted earnings per share (fils)	**30.80**	28.02

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 26 March 2012 (see note 23).

8 CASH AND CASH EQUIVALENTS

	KD 000's	
	2012	*2011*
Cash	**96,437**	91,990
Balances with Central Banks	**345,225**	239,103
Balances with banks and financial institutions - current accounts	**192,025**	192,377
Balances with banks and financial institutions - exchange of deposits	**180,569**	96,084
Cash and balances with banks and financial institutions	**814,256**	619,554
Short-term murabaha - maturing within 3 months of contract date	**357,119**	757,733
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	**140,085**	98,009
Less: Statutory deposits with Central Banks	**(319,098)**	(106,781)
Cash and cash equivalents	**992,362**	1,368,515

Statutory deposits with Central Banks represent balances that are not available for use in the Group's day to day operations.

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

	KD 000's	
	2012	*2011*
Due from banks and financial institutions	**492,388**	409,434
Due to banks and financial institutions	**(311,819)**	(321,707)
	180,569	87,727

8 CASH AND CASH EQUIVALENTS (continued)

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

	2012 KD 000's	2011 KD 000's
In assets:		
Cash and balances with banks and financial institutions - exchange of deposits	**180,569**	96,084
In liabilities:		
Due to banks and financial institutions – exchange of deposits (Note 16)	**-**	(8,357)
	180,569	87,727

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

9 RECEIVABLES

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

	2012 KD 000's	2011 KD 000's
International murabahas	**2,213,439**	1,309,615
Local murabahas and wakala	**4,731,204**	4,908,602
Istisna'a and other receivables	**131,197**	153,632
	7,075,840	6,371,849
Less: impairment	**(422,922)**	(507,028)
	6,652,918	5,864,821

The distribution of receivables is as follows:

	2012 KD 000's	2011 KD 000's
Industry sector		
Trading and manufacturing	**3,180,240**	2,673,100
Banks and financial institutions	**507,551**	644,162
Construction and real estate	**1,716,356**	1,789,029
Other	**1,671,693**	1,265,558
	7,075,840	6,371,849
Less: impairment	**(422,922)**	(507,028)
	6,652,918	5,864,821

	2012 KD 000's	2011 KD 000's
Geographic region		
Middle East	**4,103,950**	4,094,560
Western Europe	**150,204**	67,392
Other	**2,821,686**	2,209,897
	7,075,840	6,371,849
Less: impairment	**(422,922)**	(507,028)
	6,652,918	5,864,821

9 RECEIVABLES (continued)

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

	Specific		*General*		*Total*	*KD 000's*
	2012	*2011*	***2012***	*2011*	***2012***	*2011*
Balance at beginning of year	**244,019**	353,695	**263,009**	132,160	**507,028**	485,855
Provided during the year	**157,414**	40,146	**26,566**	132,694	**183,980**	172,840
Amounts written off; net of foreign currency translation	**(216,803)**	(149,822)	**(51,283)**	(1,845)	**(268,086)**	(151,667)
Balance at end of year	**184,630**	244,019	**238,292**	263,009	**422,922**	507,028
International murabahas	**80,706**	85,933	**16,631**	16,556	**97,337**	102,489
Local murabahas and wakalas	**95,192**	140,816	**215,081**	243,324	**310,273**	384,140
Istisna'a and other receivables	**8,732**	17,270	**6,580**	3,129	**15,312**	20,399
	184,630	244,019	**238,292**	263,009	**422,922**	507,028

Non performing cash and non-cash financing facilities

At 31 December 2012, non-performing finance facilities include receivables, leased assets and non cash facilities amounted to KD 679,630 thousand (2011: KD 721,528 thousand), KD 627,697 thousand (2011: KD 688,199 thousand) after excluding deferred revenue and suspended profit and KD 316,915 thousand (2011: KD 542,759 thousand) after excluding eligible collateral in accordance with CBK regulations for specific provision calculation.

	Pre-invasion	*Post liberation*	***KD 000's*** *Total*
2012			
Finance facilities	**10**	**679,620**	**679,630**
Impairment	**10**	**210,202**	**210,212**
2011			
Finance facilities	14	721,514	721,528
Impairment	14	275,460	275,474

The provision charged (released) for the year on non-cash facilities is KD 671 thousand (2011: KD 2,044 thousand). The available provision on non-cash facilities of KD 13,567 thousand (2011: KD 13,386 thousand) is included under other liabilities (Note 18).

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.

10 LEASED ASSETS

The net investment in leased assets comprises the following:

	KD 000's ***2012***	*2011*
Gross investment	**1,741,992**	1,513,612
Less: Unearned revenue	**(42,357)**	(40,511)
Impairment	**(46,125)**	(50,659)
	1,653,510	1,422,442

10 LEASED ASSETS (continued)

Impairment on leased assets is as follows:

	Specific		General		Total	KD 000's
	2012	*2011*	*2012*	*2011*	*2012*	*2011*
Balance at beginning of year	**27,975**	34,516	**22,684**	21,059	**50,659**	55,575
(Reversed) provided during the year	**(5,109)**	(3,100)	**362**	1,755	**(4,747)**	(1,345)
Write off; net of foreign currency translation	**88**	(3,441)	**125**	(130)	**213**	(3,571)
Balance at end of year	**22,954**	27,975	**23,171**	22,684	**46,125**	50,659

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

		KD 000's
	2012	*2011*
Within one year	**1,185,433**	966,671
One to five year	**315,573**	332,130
After five years	**240,986**	214,811
	1,741,992	1,513,612

The unguaranteed residual value of the leased assets at 31 December 2012 is estimated at KD 34,128 thousand (2011: KD 41,393 thousand).

The fair value of leased assets at 31 December 2012 is KD 2,794,595 thousand (2011: KD 2,117,277 thousand).

11 FINANCIAL ASSETS AVAILABLE FOR SALE

		KD 000's
	2012	*2011*
Quoted equity investments	**45,934**	54,912
Unquoted equity investments	**258,836**	263,346
Managed portfolios	**183,529**	247,444
Mutual funds	**285,043**	272,576
Sukook	**602,918**	463,899
	1,376,260	1,302,177
Financial assets available for sale carried at fair value	**752,412**	854,230
Financial assets available for sale carried at cost less impairment	**623,848**	447,947
	1,376,260	1,302,177

Included in managed portfolios is an amount of KD 45,023 thousand (2011: KD 35,557 thousand) which represents the Group's investment in 55,584 thousand shares (2011: 34,115 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.91 % of the total issued share capital at 31 December 2012 (2011: 1.27%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

12 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity % 2012	2011	*Country of registration*	*Principal Activities*	*Financial statements reporting date*
Direct investments in associates:					
Specialties Group Holding Company K.S.C. (Closed)	**40**	30	Kuwait	Holding investments	30 September 2012
First Takaful Insurance Company K.S.C. (Closed)	**28**	28	Kuwait	Islamic Takaful Insurance	30 September 2012
Gulf Investment House K.S.C. (Closed)	**20**	20	Kuwait	Islamic investments	30 September 2012
Sharjah Islamic Bank P.J.S.C.	**20**	20	United Arab Emirates	Islamic banking services	30 September 2012

	Interest in equity % 2012	2011	*Country of registration*	*Principal Activities*	*Financial statements reporting date*
Indirect significant investments in associates held through consolidated subsidiaries					
Diyar Al Muharraq W.L.L	**52**	52	Bahrain	Real estate Development	30 November 2012
Diyar Homes Company W.L.L (Shoug Al Muharraq)	**50**	50	Bahrain	Real estate Development	30 November 2012
Al Durrat Al Tijaria Company W.L.L	**50**	-	Bahrain	Real estate Development	30 November 2012
A'ayan Leasing & Investment Company K.S.C. (Closed)	**23**	19	Kuwait	Investments	30 September 2012

The Group's investment in Diyar Al Muharraq W.L.L is accounted for as an associate as the Group does not exercise control over this entity.

During the year, the Group acquired 50% equity of Al Durrat Al Tijaria W.L.L and recognized gain on bargain purchase amounting to KD 3,447 thousands (Note 4).

	KD 000's 2012	2011
Share of associates' assets and liabilities:		
Assets	**961,121**	1,007,215
Liabilities	**(541,088)**	(564,798)
Net assets	**420,033**	442,417

	KD 000's 2012	2011
Share of associates' revenue and results:		
Revenue	**79,916**	92,818
Results	**1,636**	(2,305)
Capital Commitments	**34,960**	51,584

Investments in associates with a carrying amount of KD 151,382 thousand (2011: KD 165,720 thousand) have a market value of KD 100,922 thousand at 31 December 2012 (2011: KD 82,973 thousand) based on published quotes. The remaining associates with a carrying value of KD 301,450 thousand (2011: KD 324,342 thousand) are unquoted companies. The carrying amount of investments in associates includes goodwill of KD 32,799 thousand (2011: KD 47,645 thousand).

13 INVESTMENT PROPERTIES

	KD 000's	
	2012	2011
At 1 January	**536,358**	561,377
Arising on consolidation	**48,088**	6,873
Purchases	**196,502**	118,574
Transfer from property and equipment (Note 15)	**739**	5,087
Disposals	**(198,796)**	(136,287)
Depreciation charged for the year	**(6,201)**	(21,867)
Impairment losses (charged) reversed for the year (Note 6)	**(19,426)**	2,601
At 31 December	**557,264**	536,358

	KD 000's	
	2012	2011
Developed properties	**391,108**	357,896
Properties under construction	**189,424**	182,304
	580,532	540,200
Less: Impairment in value	**(23,268)**	(3,842)
	557,264	536,358

Investment properties with carrying value of KD 43,777 thousand (2011: KD 54,451 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 34,584 thousand (2011: KD 45,043 thousand).

The fair value of investment properties at the consolidated financial position date is KD 701,855 thousand (2011: KD 642,381 thousand).

14 OTHER ASSETS

	KD 000's	
	2012	2011
Precious metals inventory	**335,779**	170,890
Trade receivable (Non banking subsidiaries)	**176,185**	149,254
Intangible asset	**160,345**	37,893
Clearing accounts	**117,585**	103,969
Goodwill	**45,612**	46,291
Receivables on disposals of investment	**30,887**	14,856
Deferred tax	**28,715**	15,825
Advances for purchase investment securities	**7,703**	29,466
Advances in investment purchases	**5,550**	1,696
Other miscellaneous assets	**112,576**	135,411
	1,020,937	705,551

Intangible assets include leasehold rights amounting to KD 126,097 thousands which are amortised over the lease period of 19.5 years, arising on business combination (Note 3).

15 PROPERTY AND EQUIPMENT

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	***2012 Total***
Cost							
At 1 January 2012	18,406	75,203	698,387	159,571	37,868	32,724	**1,022,159**
Additions	2,168	18,648	1,372	24,947	18,150	8,886	**74,171**
Disposals	(1,809)	(11,043)	(2,867)	(3,378)	(27,820)	-	**(46,917)**
Transfer to investment properties (Note 13)	-	-	-	-	-	(739)	**(739)**
At 31 December 2012	**18,765**	**82,808**	**696,892**	**181,140**	**28,198**	**40,871**	**1,048,674**
Accumulated depreciation							
At 1 January 2012	-	38,997	105,977	100,536	9,519	-	**255,029**
Depreciation charge for the year	-	14,842	28,898	18,980	3,602	-	**66,322**
Relating to disposals	-	(1,117)	(1,830)	(4,591)	(7,096)	-	**(14,634)**
Impairment loss charged for the year (Note 6)	-	1,099	7,182	-	-	-	**8,281**
At 31 December 2012	-	**53,821**	**140,227**	**114,925**	**6,025**	-	**314,998**
Net carrying amount							
At 31 December 2012	**18,765**	**28,987**	**556,665**	**66,215**	**22,173**	**40,871**	**733,676**

15 PROPERTY AND EQUIPMENT (continued)

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 13)	-	-	-	-	-	(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 (reversed) charged for the year (Note 6)	-	-	(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

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 466,611 thousand (2011: KD 497,798 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender (Note 16). The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 21% (2011: 26%) 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 58,501 thousand (2011: KD 47,235 thousand).

15 PROPERTY AND EQUIPMENT (continued)

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 253,153 thousand (2011: KD 244,317 thousand) and is receivable as follows:

	KD 000's	
	2012	*2011*
Income receivable within one year	**47,572**	48,439
Income receivable within one year to five years	**156,549**	141,521
Income receivable after five years	**49,032**	54,357
	253,153	244,317

16 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	KD 000's	
	2012	*2011*
Current accounts	**2,510**	13,127
Exchange of deposits	**-**	8,357
Murabaha payable	**1,786,278**	1,388,326
Sukook payable	**111,176**	23,691
Obligations under finance leases (Note 15)	**354,886**	385,135
	2,254,850	1,818,636

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

Property and equipment include 44 aircraft acquired by a subsidiary under finance leases denominated in US Dollars: 7 aircrafts 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 15).

Future minimum lease payments obligations under finance lease agreements together with the present value of the net minimum lease payments are as follows:

	2012		*2011*	
	Minimum payments KD 000's	***Present value of payments KD 000's***	*Minimum payments KD 000's*	*Present value of payments KD 000's*
Within one year	**41,147**	**32,760**	46,611	37,717
After one year but not more than five years	**180,157**	**156,769**	179,203	154,352
After 5 years	**174,696**	**165,357**	205,854	193,066
Total minimum lease payments	**396,000**	**354,886**	431,668	385,135
Less: amounts representing finance charges	**(41,114)**	**-**	(46,533)	-
Present value of minimum lease payments	**354,886**	**354,886**	385,135	385,135

17 DEPOSITORS' ACCOUNTS

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

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

	2012 *% per annum*	*2011* *% per annum*
Investment deposits - ("Khumasia")	**2.147**	1.920
Investment deposits - ("Mustamera")	**1.932**	1.728
Investment deposits - ("Sedra")	**1.503**	1.344
Investment savings accounts ("Tawfeer")	**1.288**	1.152

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

18 OTHER LIABILITIES

	KD 000's	
	2012	*2011*
Trade payables (Non banking subsidiaries)	**203,108**	190,073
Accrued expenses	**120,168**	100,277
Certified cheques	**114,395**	139,925
Due to customers for contract work	**93,593**	59,330
Maintenance reserve	**40,072**	24,582
Employees' end of service benefits	**37,186**	35,787
Letter of guarantee covered	**31,013**	32,906
Refundable deposits	**15,535**	12,005
Provision on non cash facilities	**13,567**	13,386
Other miscellaneous liabilities	**66,348**	73,402
	734,985	681,673

19 FAIR VALUE RESERVE

Changes in the fair value of financial assets available for sale, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are reported in the fair value reserve. Other reserves represent change in the ownership interest in subsidiaries without loss of control. Management of the Bank is of the opinion that these reserves are attributable to both the depositors and equityholders. As a result, the reporting of these reserves 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
	2012				*2011*
	Financial assets Available for sale	*Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts*	*Other reserves*	***Total***	*Total*
Balance at 1 January	**(13,378)**	**375**	**-**	**(13,003)**	(42,999)
Change in fair value of financial assets available for sale	**(29,576)**	**-**	**-**	**(29,576)**	(29,497)
Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts	**-**	**1,337**	**-**	**1,337**	(154)
Loss realized on financial assets available for sale during the year	**1,883**	**-**	**-**	**1,883**	4,957
Impairment loss transferred to consolidated statement of income (Note 6)	**39,071**	**-**	**-**	**39,071**	53,934
Share of other comprehensive income of associates	**14**	**-**	**-**	**14**	756
Acquisition of non-controlling interest (Note 24)	**-**	**-**	**(8,920)**	**(8,920)**	-
Balance at 31 December	**(1,986)**	**1,712**	**(8,920)**	**(9,194)**	(13,003)

20 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.

21 SHARE CAPITAL

Share capital

	KD 000's	
	2012	*2011*
Authorized, issued and fully paid :		
2,904,163,924 (2011: 2,689,040,671) shares of 100 fils each	**290,416**	268,904

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

	2012	*2011*
Number of shares in issue 1 January	**2,689,040,671**	2,489,852,474
Bonus issue	**215,123,253**	199,188,197
Number of shares in issue 31 December	**2,904,163,924**	2,689,040,671

Treasury shares and treasury share reserve.

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

	2012	*2011*
Number of treasury shares	**61,237,670**	47,520,217
Treasury shares as a percentage of total shares in issue	**2.11%**	1.77%
Cost of treasury shares (KD)	**54,028,034**	46,813,324
Market value of treasury shares (KD)	**49,602,512**	42,292,993

Movement in treasury shares was as follows:

	KD 000's		No. of shares	
	2012	*2011*	*2012*	*2011*
Balance as at 1 January	**46,813**	26,722	**47,520,217**	24,665,000
Purchases	**7,215**	32,374	**9,915,819**	32,877,500
Bonus issue	-	-	**3,801,634**	1,505,217
Sales	-	(12,283)	-	(11,527,500)
Balance as at 31 December	**54,028**	46,813	**61,237,670**	47,520,217

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

22 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 9,087 thousand equivalent to approximately 10% (2011: KD 8,203 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 271,578 thousand (2011: KD 262,491 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 21,118 thousand equivalent to 23% (2011: KD 11,004 thousand equivalent to 13%) 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 286,973 thousand (2011: KD 270,950 thousand).

The share premium balance is not available for distribution.

23 PROPOSED DIVIDENDS AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 10% for the year ended 31 December 2012 (2011: 15%) and issuance of bonus shares of 10% (2011: 8%) of paid up share capital as follows:

	2012		*2011*	
		Total KD 000's		*Total KD 000's*
Proposed dividends (per share)*	**10 fils**	**28,429**	15 fils	39,623
Proposed issuance of bonus shares (per 100 shares)*	**10 shares**	**29,042**	8 shares	21,512

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 905 thousand (2011: KD 260 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.

*Cash dividends of 15 fils per share on outstanding shares and bonus shares of 8% of paid up share capital proposed for the year ended 31 December 2011, to the Bank's shareholders on record as of the date of the Annual General Assembly, and directors' remuneration of KD 260 thousand, were approved by the Bank's Annual General Assembly of the shareholders held on 26 March 2012 and paid during the year.

24 SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %*		*Principal activities*	*Financial statements reporting date*
		2012	*2011*		
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	30 November 2012
KFH Private Equity Ltd.	Cayman	**100**	100	Islamic investments	30 September 2012
KFH Financial Service Ltd.	Cayman	**100**	100	International Real Estate Development and investments	30 September 2012
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	**100**	100	Islamic finance and investments	30 September 2012
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	**100**	100	Real estate development and leasing	31 October 2012
Development Enterprises Holding Company K.S.C.	Kuwait	**100**	100	Infrastructure and industrial investments	30 September 2012
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real Estate development and investment	30 September 2012
Liquidity Management House K.S.C. (Closed)	Kuwait	**100**	100	Islamic finance and investments	30 September 2012
Saudi Kuwaiti Finance House S. S. C. (Closed)	Saudi Arabia	**100**	100	Islamic Investment	30 September 2012
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**97**	97	Computer maintenance, consultancy, and software services	30 September 2012
Kuwait Finance House B.S.C.	Bahrain	**93**	93	Islamic banking services	30 November 2012
Kuwait Turkish Participation Bank	Turkey	**62**	62	Islamic banking services	30 November 2012
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	**53**	53	Aircraft leasing and financing services	30 September 2012
Aref Investment Group K.S.C. (Closed)	Kuwait	**52**	52	Islamic investments	30 September 2012
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	**50**	50	Real estate, investment, trading and real estate management	31 October 2012

During the year, the Group acquired an additional 23.6% interest of the indirect subsidiary of the Group namely the Aref Energy Holding Company K.S.C. (Closed), increasing its ownership interest to 95.8%. Cash consideration of KD 23,727 thousands was paid to the non-controlling shareholders. The difference of KD 8,920 thousand between the consideration paid and the net asset value acquired has been recognized in other reserve within fair value reserve as the management of the Bank is of the opinion that this reserve is attributable to depositors and equityholders (Note 19).

25 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	
	2012	*2011*
Acceptances and letters of credit	**209,079**	142,951
Letter of Guarantees	**1,220,710**	994,683
Contingent liabilities	**1,429,789**	1,137,634
Capital commitments	**1,702,187**	1,544,753

26 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, profit rate 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 2012, 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 2012						
Cash flow hedges						
Forward contracts	15	(151)	60,340	33,798	26,542	-
Currency swaps	655	(159)	27,091	-	-	27,091
	670	**(310)**	**87,431**	**33,798**	**26,542**	**27,091**
Not designated as hedges						
Forward contracts	4,029	(1,077)	197,255	134,352	62,903	-
Profit rate swaps	1,959	(1,528)	25,599	-	-	25,599
Currency swaps	2,166	(100)	238,658	138,032	100,626	-
Embedded precious metals	-	(91)	230,637	230,637	-	-
	8,154	**(2,796)**	**692,149**	**503,021**	**163,529**	**25,599**
	8,824	**(3,106)**	**779,580**	**536,819**	**190,071**	**52,690**

26 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 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

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

	Notional amount	*Within 3 months*	*3 to 12 Months*	*More than 12 months*
	KD 000's			
31 December 2012				
Cash inflows	779,580	536,819	190,071	52,690
Cash outflows	(774,172)	(533,516)	(188,416)	(52,240)
Net cash flows	**5,408**	**3,303**	**1,655**	**450**
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

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

27 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.

Transactions with related parties included in the consolidated statement of income are as follows:

					KD 000's	
					Total	
	Major shareholders	*Associates*	*Board Members and Executive Officers*	*Other related party*	***2012***	*2011*
Financing income	36	1,549	434	3,081	**5,100**	7,576
Fee and commission income	5	4	-	56	**65**	181
Finance costs	7,806	93	-	889	**8,788**	8,661

Balances with related parties included in the consolidated statement of financial position are as follows:

					KD 000's	
					Total	
	Major shareholders	*Associates*	*Board Members and Executive Officers*	*Other related party*	***2012***	*2011*
Receivables	-	61,364	11,003	108,376	**180,743**	169,054
Due to banks and financial institutions	1,014,533	11,268	-	21,117	**1,046,918**	550,343
Depositors' accounts	32,427	15,787	5,117	27,078	**80,409**	84,703
Contingencies and capital commitments	906	612	9	5,225	**6,752**	10,271
Investment managed by related party	-	-	-	48,583	**48,583**	31,104

27 RELATED PARTY TRANSACTIONS (continued)

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*	
	2012	*2011*	***2012***	*2011*	***2012***	*2011*
Board Members						
Finance facilities	**6**	5	**2**	1	**6,834**	8,086
Credit cards	**9**	5	**3**	-	**43**	38
Deposits	**33**	32	**39**	31	**2,432**	5,086
Collateral against financing facilities	**5**	4	**-**	-	**7,982**	8,357
Executive officers						
Finance facilities	**14**	12	**6**	5	**4,621**	4,773
Credit cards	**11**	10	**4**	3	**28**	26
Deposits	**41**	33	**56**	51	**4,173**	4,122
Collateral against finance facilities	**8**	9	**1**	3	**6,940**	6,921

The transactions included in the consolidated statement of income are as follows:

	Parent	*Subsidiaries*	*KD 000's* *Total*	
			2012	*2011*
Board Members				
Finance income	204	62	**266**	496
Executive officers				
Finance income	116	52	**168**	224
	320	**114**	**434**	720

Salaries, allowances and bonuses of key management personnel and remuneration of chairman and board members are as follows:

	Parent	*Subsidiaries*	*KD 000's* *Total*	
			2012	*2011*
Salaries, allowances and bonuses of key management personnel	2,621	10,265	**12,886**	11,306
Termination benefits of key management personnel	89	859	**948**	650
Remuneration of chairman and board members *	905	1,988	**2,893**	2,092
	3,615	**13,112**	**16,727**	14,048

** Remuneration of chairman and board members includes special compensation for additional contributions related to participation in the executive committees in accordance with board of directors' decisions.*

The remuneration of chairman and board members are subject to the approval of the Annual General Assembly.

28 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

					KD 000's
31 December 2012	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	**2,938,301**	**3,838,578**	**6,395,987**	**1,530,435**	**14,703,301**
Total liabilities	**2,427,035**	**58,995**	**9,277,862**	**618,619**	**12,382,511**
Income	**52,711**	**112,230**	**664,044**	**103,815**	**932,800**
Impairment	**(3,034)**	**(62,946)**	**(185,821)**	**(3,547)**	**(255,348)**
Finance costs	**(23,464)**	**(23,879)**	**-**	**(11,794)**	**(59,137)**
Profit before distribution to depositors	**20,889**	**11,020**	**280,866**	**(15,168)**	**297,607**

					KD 000's
31 December 2011	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
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

28 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
	2012	*2011*	***2012***	*2011*	***2012***	*2011*
Geographical areas:						
The Middle East	**9,371,307**	9,395,665	**8,862,832**	8,419,842	**462,993**	411,279
North America	**478,985**	243,756	**104,694**	78,986	**118,007**	326,136
Western Europe	**685,568**	501,791	**399,550**	411,247	**1,201,547**	917,048
Other	**4,167,441**	3,318,621	**3,015,435**	2,472,079	**1,349,429**	1,027,924
	14,703,301	13,459,833	**12,382,511**	11,382,154	**3,131,976**	2,682,387

	Local		*International*		*Total*	
						KD 000's
	2012	*2011*	***2012***	*2011*	***2012***	*2011*
Income	**485,733**	477,179	**447,067**	394,903	**932,800**	872,082
Profit before distribution to depositors	**158,568**	114,250	**139,039**	77,273	**297,607**	191,523

29 CONCENTRATION OF ASSETS AND LIABILITIES

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

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

	KD 000's	
	2012	*2011*
Trading and manufacturing	**3,364,412**	3,036,688
Banks and financial institutions	**3,110,698**	2,977,044
Construction and real estate	**4,405,867**	3,982,698
Other	**3,822,324**	3,463,403
	14,703,301	13,459,833

29 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(b) The distribution of liabilities was as follows:

	2012			2011		KD 000's
	Banking	*Non-banking*	*Total*	*Banking*	*Non-banking*	*Total*
Geographic region						
The Middle East	**8,421,254**	**441,578**	**8,862,832**	8,218,084	201,758	8,419,842
North America	**45,610**	**59,084**	**104,694**	2,296	76,690	78,986
Western Europe	**78,794**	**320,756**	**399,550**	70,846	340,401	411,247
Other	**2,970,779**	**44,656**	**3,015,435**	2,420,439	51,640	2,472,079
	11,516,437	**866,074**	**12,382,511**	10,711,665	670,489	11,382,154

30 FOREIGN CURRENCY EXPOSURE

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

	2012 Equivalent Long (short)	*2011 Equivalent Long (short)*
		KD 000's
U.S. Dollars	**312,968**	397,263
Sterling Pounds	**12,970**	18,393
Euros	**8,602**	13,232
Gulf Cooperation Council currencies	**306,583**	324,670
Others	**(117,613)**	(69,441)

31 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.

31 RISK MANAGEMENT (continued)

a) Risk management structure (continued)

Credit Committee
The Bank's Credit Committee conducts a review and take action on the determination of the Bank's credit risk while ensuring compatibility with the approved risk tendency. The committee also included in general compliance with all credit risk policies adopted with obtaining the necessary approvals and exceptions.

Assets and Liabilities Committee
The Bank's Assets and Liabilities Committee is responsible of the effective supervision of liquidity risk management and finance, adoption of frameworks, and follow-up implementation in its regular meetings.

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, forward foreign exchange and forward commodity 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 overseen by the Bank's Board of Directors.

32 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.

32 CREDIT RISK (continued)

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.

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

Gross maximum credit risk exposure	*Notes*	*2012* (*KD 000's*)	*2011* (*KD 000's*)
Balances with banks and financial institutions		**717,819**	527,565
Short-term murabaha		**1,185,723**	1,478,052
Receivables	9	**6,652,918**	5,864,821
Leased assets	10	**1,653,510**	1,422,442
Financial assets available for sale – Sukook	11	**602,918**	463,899
Other assets – trade receivable (Non banking subsidiaries)	14	**176,185**	149,254
Total		**10,989,073**	9,906,033
Contingent liabilities	25	**1,429,789**	1,137,634
Commitments	25	**1,702,187**	1,544,753
Total		**3,131,976**	2,682,387
Total credit risk exposure		**14,121,049**	12,588,420

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 2012 was KD 89,599 thousands (2011: KD 102,724 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

	2012			*2011*		
	Banking	*Non-banking*	*Total*	*Banking*	*Non-banking*	*Total*
The Middle East	**7,211,955**	**210,175**	**7,422,130**	6,510,144	172,220	6,682,364
North America	**71,321**	**17,301**	**88,622**	49,886	102,610	152,496
Western Europe	**181,186**	**14,922**	**196,108**	103,800	11,672	115,472
Other	**3,157,919**	**124,294**	**3,282,213**	2,920,339	35,362	2,955,701
	10,622,381	**366,692**	**10,989,073**	9,584,169	321,864	9,906,033

32 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:

	2012			2011		*KD 000's*
	Banking	***Non-banking***	***Total***	*Banking*	*Non-banking*	*Total*
Trading and Manufacturing	**3,073,401**	**24,574**	**3,097,975**	2,700,120	25,045	2,725,165
Banks and financial Institutions	**2,966,155**	**111,105**	**3,077,260**	2,711,811	73,517	2,785,328
Construction and real Estate	**2,991,407**	**144,551**	**3,135,958**	2,750,949	149,035	2,899,984
Other	**1,591,418**	**86,462**	**1,677,880**	1,421,289	74,267	1,495,556
	10,622,381	**366,692**	**10,989,073**	9,584,169	321,864	9,906,033

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

	Neither past due nor impaired			***KD 000's***
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2012				
Receivables:				
International murabahas	**450,665**	**1,575,235**	**90,202**	**2,116,102**
Local murabahas and wakala	**-**	**3,677,922**	**743,009**	**4,420,931**
Istisna'a and other receivables	**282**	**70,762**	**44,841**	**115,885**
	450,947	**5,323,919**	**878,052**	**6,652,918**
Leased assets (Note 10)	**-**	**1,303,864**	**349,646**	**1,653,510**
Financial assets available for sale – sukook (Note11)	**272,084**	**316,771**	**14,063**	**602,918**
	723,031	**6,944,554**	**1,241,761**	**8,909,346**

	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	927,449	70,107	1,207,126
Local murabahas and wakala	-	3,971,306	553,156	4,524,462
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 10)	-	1,124,735	297,707	1,422,442
Financial assets available for sale – sukook (Note11)	150,426	271,376	42,097	463,899
	360,244	6,406,300	984,618	7,751,162

32 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 2012				
Local murabahas	**287,592**	**168,986**	**128,807**	**585,385**
Istisna'a and other receivables	**38,011**	**639**	**1,931**	**40,581**
Leased assets	**31,151**	**24,274**	**82,362**	**137,787**
	356,754	**193,899**	**213,100**	**763,753**
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

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 2012 amounts to KD 326,943 thousand (2011: KD 252,901 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2012 was KD 83,483 thousand (2011: KD 86,590 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

33 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:

	2012 %	*2011* %
31 December	**23**	22
Average during the year	**24**	22
Highest	**27**	25
Lowest	**21**	20

The table below summarizes the maturity profile of the Group's assets and liabilities. 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 2012 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	814,256	-	-	-	**814,256**
Short-term murabaha	1,185,723	-	-	-	**1,185,723**
Receivables	1,309,569	956,013	1,104,778	3,282,558	**6,652,918**
Trading properties	1,636	209,067	7,854	37,368	**255,925**
Leased assets	451,405	270,594	613,483	318,028	**1,653,510**
Financial assets available for sale	58,335	6,561	54,264	1,257,100	**1,376,260**
Investments in associates	-	-	-	452,832	**452,832**
Investment properties	-	-	-	557,264	**557,264**
Other assets	462,265	92,533	37,964	428,175	**1,020,937**
Property and equipment	-	-	-	733,676	**733,676**
	4,283,189	**1,534,768**	**1,818,343**	**7,067,001**	**14,703,301**
Liabilities					
Due to banks and financial Institutions	1,500,816	161,663	282,715	309,656	**2,254,850**
Depositors' accounts	6,022,441	409,692	209,532	2,751,011	**9,392,676**
Other liabilities	87,172	130,080	185,017	332,716	**734,985**
	7,610,429	**701,435**	**677,264**	**3,393,383**	**12,382,511**

33 LIQUIDITY RISK (continued)

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

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

The 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*	*Total*
						KD 000's
2012						
Contingent liabilities	**419,241**	**295,931**	**270,616**	**351,723**	**92,278**	**1,429,789**
Capital Commitments	**371,068**	-	**3,850**	**249,251**	**1,078,018**	**1,702,187**
Total	**790,309**	**295,931**	**274,466**	**600,974**	**1,170,296**	**3,131,976**

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
						KD 000's
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

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

34 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 and other financing arrangements are at fixed profit rate 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 2012 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
	2012			*2011*		
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*
U.S. Dollars	+1	3,130	1,579	+1	3,976	3,566
Sterling Pounds	+1	130	160	+1	184	236

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
	2012		*2011*	
	Change in equity price %	*Effect on fair value reserve*	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	+1	2,045	+1	2,346
Other GCC indices	+1	585	+1	502

34 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.

35 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	*2012*	*2011*
Risk Weighted Assets	**11,085,751**	10,399,742
Capital required	**1,330,289**	1,247,968
Capital available		
Tier 1 capital	**1,503,852**	1,404,493
Tier 2 capital	**40,851**	23,206
Total capital	**1,544,703**	1,427,699
Tier 1 capital adequacy ratio	**13.57%**	13.51%
Total capital adequacy ratio	**13.93%**	13.73%

The Bank is required to comply with Capital Adequacy Regulation for Islamic banks issued by Central Bank of Kuwait as stipulated in Central Bank of Kuwait circular number 2/RBA/44/2009 dated 15 June 2009.

36 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.

37 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, profit rate swaps, forward foreign exchange and forward commodity contracts for hedging purposes. Information about fair values of financial assets and liabilities are disclosed in note 39 of the consolidated financial statements.

38 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2012 amounted to KD 635,086 thousand (2011: KD 672,584 thousand).

Fees and commission income include fees of KD 3,029 thousand (2011: KD 2,054 thousand) arising from trust and fiduciary activities.

39 FAIR VALUE HIERARCHY

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments 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: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

				KD 000's
	Level 1	***Level 2***	***Level 3***	***Total***
31 December 2012				
Quoted equity investments	**45,934**	**-**	**-**	**45,934**
Unquoted equity investments	**-**	**2,299**	**74,010**	**76,309**
Managed portfolios	**106,600**	**30,401**	**7,288**	**144,289**
Mutual funds	**1,163**	**10,236**	**-**	**11,399**
Sukook	**335,021**	**131,379**	**8,081**	**474,481**
Forward contracts	**-**	**2,816**	**-**	**2,816**
Profit rate swaps	**-**	**431**	**-**	**431**
Currency swaps	**-**	**2,562**	**-**	**2,562**
Embedded precious metals	**-**	**(91)**	**-**	**(91)**
	488,718	**180,033**	**89,379**	**758,130**

				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	205,336	10,308	17,967	233,611
Mutual funds	-	15,705	111,081	126,786
Sukook	302,581	54,899	-	357,480
Forward contracts	-	2,088	-	2,088
Profit rate swaps	-	662	-	662
Currency swaps	-	623	-	623
Embedded precious metals	-	(1,338)	-	(1,338)
	562,829	82,947	210,489	856,265

39 FAIR VALUE HIERARCHY (continued)

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.