# KUWAIT FINANCE HOUSE K.S.C.P. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS

## 31 DECEMBER 2013

EY
Building a better working world

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

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 auditors consider internal control relevant to the Group's preparation and fair presentation of the 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 Group management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, 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.

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

**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, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the 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, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any 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 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
AL AIBAN, AL OSAIMI & PARTNERS

BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

9 January 2014
Kuwait

# CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

| | *Notes* | *2013* | *2012* |
|---|---|---|---|
| | | | *KD 000's* |
| **CONTINUING OPERATIONS** | | | |
| Financing income | | **571,362** | 573,515 |
| Investment income | 5 | **246,418** | 229,288 |
| Fee and commission income | | **79,717** | 72,705 |
| Share of results of associates and joint ventures | 14&15 | **10,903** | 1,636 |
| Gain on foreign currencies | | **27,263** | 19,538 |
| Other income | 6 | **60,515** | 32,121 |
| | | **996,178** | 928,803 |
| **EXPENSES** | | | |
| Staff costs | | **169,311** | 134,595 |
| General and administrative expenses | | **139,266** | 111,319 |
| Finance costs | | **63,043** | 59,137 |
| Depreciation and amortisation | | **73,921** | 74,794 |
| Impairment | 7 | **223,802** | 251,351 |
| | | **669,343** | 631,196 |
| **PROFIT FOR THE YEAR FROM CONTINUED OPERATIONS** | | **326,835** | 297,607 |
| **DISCONTINUED OPERATIONS** | | | |
| Loss for the year from discontinued operations | 21 | **(1,644)** | - |
| **PROFIT BEFORE DISTRIBUTION TO DEPOSITORS** | | **325,191** | 297,607 |
| Distribution to depositors | | **171,959** | 171,085 |
| **PROFIT AFTER DISTRIBUTION TO DEPOSITORS** | | **153,232** | 126,522 |
| Contribution to Kuwait Foundation for the Advancement of Sciences | | **1,201** | 909 |
| National Labor Support Tax | | **1,992** | 1,077 |
| Zakat (based on Zakat Law No. 46/2006) | | **778** | 309 |
| Proposed directors' fees for 2013 | 30 | **580** | 905 |
| Reversal of proposed directors' fees for 2012 | 30 | **(385)** | - |
| **PROFIT FOR THE YEAR** | | **149,066** | 123,322 |
| **Attributable to:** | | | |
| Equityholders of the Bank | | **115,893** | 87,676 |
| Non-controlling interests | | **33,173** | 35,646 |
| | | **149,066** | 123,322 |
| **BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK** | 8 | **32.69 fils** | 26.47 fils |

The attached notes 1 to 45 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | | *KD 000's* |
| **Profit before distribution to depositors** | | **325,191** | 297,607 |
| **Other comprehensive income (loss) to be reclassified to consolidated statement of income in subsequent periods:** | | | |
| Change in fair value of financial assets available for sale | 26 | **(15,130)** | (29,576) |
| Change in fair value of currency swaps, profit rate swaps, forward foreign currency exchange and forward commodity contracts | 26 | **5** | 1,337 |
| (Gain) loss realised on financial assets available for sale during the year | 26 | **(5,949)** | 1,883 |
| Impairment loss transferred to the consolidated statement of income | 26 | **15,304** | 39,071 |
| Share of other comprehensive income of associates and joint ventures | 26 | **1,403** | 14 |
| Exchange differences on translation of foreign currency operations | 27 | **(44,966)** | 21,332 |
| **Other comprehensive (loss) income to be reclassified to consolidated statement of income in subsequent periods** | | **(49,333)** | 34,061 |
| **Total comprehensive income for the year before estimated distribution to depositors** | | **275,858** | 331,668 |

The attached notes 1 to 45 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | | *KD 000's* |
| **ASSETS** | | | |
| Cash and balances with banks and financial institutions | 9 | **1,070,486** | 814,256 |
| Short-term murabaha | 10 | **2,431,742** | 1,185,723 |
| Receivables | 11 | **6,500,300** | 6,652,918 |
| Trading properties | | **288,928** | 255,925 |
| Leased assets | 12 | **1,938,479** | 1,653,510 |
| Financial assets available for sale | 13 | **1,215,823** | 1,248,772 |
| Investment in associates and joint ventures | 14&15 | **617,594** | 580,320 |
| Investment properties | 16 | **524,342** | 557,264 |
| Other assets | 17 | **490,732** | 852,068 |
| Intangible assets | 18 | **57,098** | 42,772 |
| Property and equipment | 19 | **812,593** | 733,676 |
| Leasehold rights | 20 | **125,320** | 126,097 |
| Assets classified as held for sale | 21 | **66,353** | - |
| **TOTAL ASSETS** | | **16,139,790** | 14,703,301 |
| **LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN CURRENCY EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to banks and financial institutions | 23 | **2,468,526** | 2,254,850 |
| Depositors' accounts | 24 | **10,103,986** | 9,392,676 |
| Other liabilities | 25 | **748,740** | 734,985 |
| | | **13,321,252** | 12,382,511 |
| Liabilities directly associated with assets classified as held for sale | 21 | **13,587** | - |
| **TOTAL LIABILITIES** | | **13,334,839** | 12,382,511 |
| **DEFERRED REVENUE** | | **851,730** | 744,041 |
| **FAIR VALUE RESERVE** | 26 | **(13,561)** | (9,194) |
| **FOREIGN EXCHANGE TRANSLATION RESERVE** | 27 | **(98,439)** | (53,473) |
| **EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK** | | | |
| Share capital | 28 | **383,350** | 290,416 |
| Share premium | 28 | **720,333** | 464,766 |
| Proposed issue of bonus shares | 30 | **49,835** | 29,042 |
| Treasury shares | 28 | **(56,118)** | (54,028) |
| Reserves | 29 | **582,497** | 569,473 |
| | | **1,679,897** | 1,299,669 |
| Proposed cash dividends | 30 | **48,968** | 28,429 |
| **TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK** | | **1,728,865** | 1,328,098 |
| Non-controlling interests | | **336,356** | 311,318 |
| **TOTAL EQUITY** | | **2,065,221** | 1,639,416 |
| **TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY** | | **16,139,790** | 14,703,301 |

MOHAMMED ALI AL-KHUDAIRI
(CHAIRMAN)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 45 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

*KD 000's*

| | *Attributable to equityholders of the Bank* | | | | | | | | | | | | | *Non-controlling interests* | *Total equity* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *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 1 January 2012 | 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 (Note 28) | 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 (Note 30) | - | - | 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) | - | - | - | - | - |
| Additions on treasury shares (Note 28) | - | - | - | (7,215) | - | - | - | - | - | - | (7,215) | - | (7,215) | - | (7,215) |
| Non-controlling interests arising on a business combination (Note 4) | - | - | - | - | - | - | - | - | - | - | - | - | - | 33,691 | 33,691 |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | (14,807) | (14,807) |
| Net other change in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | (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 45 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2013

KD 000's

| | Attributable to equityholders of the Bank | | | | | | | | | | | | | | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Proposed issue of bonus shares | Treasury shares | Statutory reserve | Voluntary reserve | Employees' share options reserve | Treasury shares reserve | Sub total | Profit for the year | Sub total | Proposed cash dividend | Sub total | | | |
| At 1 January 2013 | 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** |
| Issue of bonus shares (Note 28) | 29,042 | - | (29,042) | - | - | - | - | - | - | - | - | - | - | | - | **-** |
| Zakat paid | - | - | - | - | - | (4,115) | - | - | (4,115) | - | (4,115) | - | (4,115) | | - | **(4,115)** |
| Issue of shares for cash (Note 28) | 63,892 | 255,567 | - | - | - | - | - | - | - | - | 319,459 | - | 319,459 | | - | **319,459** |
| Cash dividends paid | - | - | - | - | - | - | - | - | - | - | - | (28,429) | (28,429) | | - | **(28,429)** |
| Profit for the year | - | - | - | - | - | - | - | - | - | 115,893 | 115,893 | - | 115,893 | | 33,173 | **149,066** |
| Distribution of profit: | | | | | | | | | | | | | | | | |
| Proposed issue of bonus shares (Note 30) | - | - | 49,835 | - | - | - | - | - | - | (49,835) | - | - | - | | - | **-** |
| Proposed cash dividends | - | - | - | - | - | - | - | - | - | (48,968) | (48,968) | 48,968 | - | | - | **-** |
| Transfer to statutory reserve | - | - | - | - | 12,006 | - | - | - | 12,006 | (12,006) | - | - | - | | - | **-** |
| Transfer to voluntary reserve | - | - | - | - | - | 5,084 | - | - | 5,084 | (5,084) | - | - | - | | - | **-** |
| Additions on treasury shares (Note 28) | - | - | - | (23,059) | - | - | - | - | - | - | (23,059) | - | (23,059) | | - | **(23,059)** |
| Disposal of treasury shares (Note 28) | - | - | - | 20,969 | - | - | - | - | - | - | 20,969 | - | 20,969 | | - | **20,969** |
| Profit on sale of treasury shares (Note 28) | - | - | - | - | - | - | - | 49 | 49 | - | 49 | - | 49 | | - | **49** |
| Non-controlling interest arising on a business combination (Note 4) | - | - | - | - | - | - | - | - | - | - | - | - | - | | 6,419 | **6,419** |
| Acquisition of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | | (15,459) | **(15,459)** |
| Disposal of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | | (18,502) | **(18,502)** |
| Increase in capital in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | | 21,296 | **21,296** |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | | (3,249) | **(3,249)** |
| Net other change in non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | - | | 1,360 | **1,360** |
| **At 31 December 2013** | **383,350** | **720,333** | **49,835** | **(56,118)** | **283,584** | **287,942** | **4,246** | **6,725** | **582,497** | **-** | **1,679,897** | **48,968** | **1,728,865** | | **336,356** | **2,065,221** |

The attached notes 1 to 45 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

| | Notes | 2013 | 2012 |
|---|---|---|---|
| | | | *KD 000's* |
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **149,066** | 123,322 |
| Adjustments to reconcile profit to net cash flows: | | | |
| Depreciation and amortisation | | **73,921** | 74,794 |
| Impairment | 7 | **223,802** | 251,351 |
| Finance cost | | **63,043** | 59,137 |
| Dividend income | 5 | **(14,765)** | (14,027) |
| Gain on part sale of associates | 5 | **(128)** | (4,269) |
| Gain on sale of financial assets available for sale | 5 | **(11,636)** | (34,581) |
| Sukook income | 5 | **(23,710)** | (19,388) |
| Gain on cancellation of aircraft contract | 5 | **(7,119)** | (7,043) |
| Gain on settlement of pre existing transactions between the Group and acquiree companies | 5 | **(8,540)** | (34,884) |
| Gain on bargain purchase | 5 | **(11,530)** | (10,838) |
| Gain on bargain purchase of a joint venture | 5 | **-** | (3,447) |
| Loss on remeasurement of previously held equity | 5 | **3,055** | 5,353 |
| Gain on sale of investment properties | 5 | **(131,627)** | (88,703) |
| Share of profit of associates and joint venture | | **(10,903)** | (1,636) |
| Other investment income | 5 | **(13,193)** | (4,058) |
| | | **279,736** | 291,083 |
| Changes in operating assets and liabilities | | | |
| *(Increase) decrease in operating assets:* | | | |
| Receivables | | **(272,598)** | (903,811) |
| Trading properties | | **(68,198)** | 20,695 |
| Leased assets | | **(303,922)** | (226,321) |
| Other assets | | **328,632** | (312,875) |
| Intangible assets | | **(22,751)** | - |
| Leasehold rights | | **(5,210)** | - |
| Statutory deposit with Central Banks | | **(139,845)** | (212,317) |
| *Increase (decrease) in operating liabilities:* | | | |
| Due to banks and financial institutions | | **216,955** | 436,214 |
| Depositors' accounts | | **711,148** | 510,831 |
| Finance cost paid | | **(63,043)** | (59,137) |
| Other liabilities | | **3,707** | 89,810 |
| Net cash flows from (used in) operating activities | | **664,611** | (365,828) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of financial assets available for sale, net | | **(14,348)** | (33,176) |
| Purchase of investment properties | | **(105,781)** | (244,590) |
| Proceeds from sale of investment properties | | **259,644** | 286,759 |
| Purchase of property and equipment | | **(194,669)** | (87,423) |
| Proceeds from sale of property and equipment | | **24,199** | 46,274 |
| Purchase of investments in associates | | **(40,892)** | (81,190) |
| Proceeds from sale of investments in associates | | **14,698** | 116,771 |
| Sukook income received | | **23,710** | 19,388 |
| Cash proceeds from cancellation of aircraft contracts | | **7,119** | 7,043 |
| Dividend income received | | **19,829** | 35,477 |
| Net cash flows (used in) from investing activities | | **(6,491)** | 65,333 |
| **FINANCING ACTIVITIES** | | | |
| Increase in capital | | **319,459** | - |
| Cash dividends paid | | **(28,429)** | (39,623) |
| Cash received on cancellation of share options | | **-** | 2 |
| Payment of Zakat | | **(4,115)** | (5,095) |
| Sale of treasury shares | | **21,018** | - |
| Purchase of treasury shares | | **(2,003)** | (7,215) |
| Acquisition of non-controlling interests | | **(15,459)** | (23,727) |
| Dividend paid to non-controlling interests | | **(3,249)** | - |
| Increase in capital in subsidiaries relating to non-controlling interests | | **21,296** | - |
| Net cash flows from (used in) financing activities | | **308,518** | (75,658) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **966,638** | (376,153) |
| Cash and cash equivalents at 1 January | | **992,362** | 1,368,515 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 9 | **1,959,000** | 992,362 |

The attached notes 1 to 45 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 9 January 2014. 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.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 22. The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and was registered as an Islamic Bank with the Central Bank of Kuwait on 24 May 2004. It is engaged principally in providing banking services, the purchase and sale of properties, leasing, project construction for its own account as well as for third parties and other trading activities without practicing usury. Trading activities are conducted on the basis of purchasing various goods and selling them on murabaha at negotiated profit margins which can be settled in cash or on installment credit basis. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

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

The Bank operates through 61 local branches (2012: 56) and employed 2,537 employees as of 31 December 2013 (2012: 2,408) of which 1,522 (2012: 1,496) are Kuwaiti nationals representing 60% (2012: 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 2013. 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 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
- *IAS 1 Clarification of the requirement for comparative information (Amendment)*
- *IAS 19 Employee Benefits (Revised)*
- *IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
- *IFRS 10 Consolidated Financial Statements*
- *IAS 27 Separate Financial Statements (as revised in 2011)*
- *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*
- *IFRS 12 Disclosure of Involvement with Other Entities*
- *IFRS 13 Fair Value Measurement*

## 2.2 CHANGES IN ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

The amendment 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 1 Clarification of the requirement for comparative information (Amendment)*

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2013 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have 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 application of this did not have material impact on the consolidated financial position and performance.

*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 application of this did not have material impact on disclosures in the consolidated financial statements.

*IFRS 10 Consolidated Financial Statements*

This standard 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 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 application of IFRS 10 did not have material impact 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.

*IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

IFRS 11 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. 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. For the impact of application of IFRS 11 on the Group level refer to note 14 and 15.

## 2.2 CHANGES IN ACCOUNTING POLICIES (continued)

**New and amended standards and interpretations (continued)**

*IFRS 12 Disclosure of Involvement with Other Entities*
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Note 22.

*IFRS 13 Fair Value Measurement*
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. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Notes 16 and 45.

## 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 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.

*IFRS 9 Financial Instruments: Classification and Measurement*
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 mandatory effective date of IFRS 9 and transition disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

*Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*
These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

## 2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

*Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets*
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

*IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

## 2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2013 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 22. All significant intra-group balances, transactions and unrealized gains or losses resulting from intra group transactions and dividends are eliminated in full.

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

## 2.4 BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

## 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. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for 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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 amortised cost of a financial asset and of allocating the financing income over the relevant period.

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

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

iv) Rental income from investment properties is recognised on an accruals basis.

v) Dividend income is recognised when the right to receive payment is established.

vi) Fee and commission income is recognised at the time the related services are provided.

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

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

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

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 amortised 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 instalments 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases**

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

*Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are charged in the consolidated statement of income. Capitalised leased assets are depreciated over the estimated useful life of the asset. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

*Group as a lessor*

Leased assets

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

*Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.
Leased assets are stated at amounts equal to the net investment outstanding in the leases.

**Financial assets available for sale**

Financial assets available for sale include equity investments 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.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised in OCI and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to consolidated statement of income.

**Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations**

The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at the lower of their carrying amount and fair value less costs to sell or to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding the finance costs and income tax expense.

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (continued)**

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution with be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 21. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The share of profit of an associate and joint venture are included in (Note 14 and 15). This is the profit attributable to equity holders of the associate or joint venture, and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment in associates and joint ventures (continued)**
After application of the equity method, the Group determines whether it is necessary to recognise impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

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

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

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

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

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

Freehold land is not depreciated. Depreciation on the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives that range from 20 – 40 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 intangible assets and its expected useful life are as follows:

| | |
|---|---|
| ▪ license of Islamic brokerage company | assessed to have an indefinite useful lifes |
| ▪ Exploration rights | 10 years |
| ▪ Software development cost | 3-5 years |
| ▪ Software license right | 15 years |
| ▪ Other rights | 3-7 years |

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Intangible assets (continued)**
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 amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not 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 income statement when the asset is derecognised A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

**Leasehold rights**
Leasehold rights acquired are measured on initial recognition at cost. Following initial recognition, leasehold rights are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Leasehold rights are amortised over their useful economic life and assessed for impairment whenever there is an indication that the leasehold rights may be impaired. The amortisation period and the amortisation method for leasehold rights is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on leasehold rights is recognised in the consolidated statement of income.

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

**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 17).

**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 |

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property and equipment (continued)**
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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, 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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 recognized 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 recognized in profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if 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 amortised cost*

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified 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 interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

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

*Available-for-sale (AFS) financial investments*

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

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (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 valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**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 and commodity price 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 (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in accounts payable and accruals in the consolidated statement of financial position. These instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of these instruments are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

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.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

*Cash flow hedges:*
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses.

The Group uses forward foreign exchange contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses. Refer to Note 32 for more details.

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.

*Hedges of a net investment:*
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to consolidated statement of income

**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.

**2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement**
The Group measures financial instruments, such as, derivatives, and non-financial assets such as precious metal inventory, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimizing the use of unobservable inputs.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 45 for further disclosures.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required.

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.

*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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement (continued)**

*Financial assets available for sale (continued)*
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 who have relevant experience in the property market.

**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 is determined by the fair value at the date when the grant is made using 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.

That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

**Zakat**
In accordance with 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.

**Taxation on overseas subsidiaries**
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that future taxable profits will be available to utilise this. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

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

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

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

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

*Group companies*
On consolidation the assets and liabilities of foreign 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currency translation (continued)**

*Group companies(continued)*
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.

**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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**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:

*Operating lease commitments – Group as lessor*
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

*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.

**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. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

*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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Estimation uncertainty (continued)**

*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 13, 45). As a result, these investments are carried at cost less impairment.

*Contingent consideration arising from business combinations*
Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

## 3 GROUP INFORMATION

Details of principal operating material subsidiaries are set out in note 22.

## 4 BUSINESS COMBINATIONS AND ACQUSITION OF NON-CONTROLLING INTERESTS

### 4.1 Business combinations in 2012:

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 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 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 a 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* | *Group's equity interest after business combination* |
|---|---|---|---|---|
| Munshaat Real Estate Projects Company K.S.C (Closed) ("Munshaat") | 25.24% | 27.67% | - | **52.91%** |
| Qitaf Joint Venture ("Qitaf") | 44.91% | 36.43% | 9.13% | **90.47%** |
| Athman Gulf for General Trading and Contracting W.L.L ("Athman Gulf") | 53.16% | - | 32.59% | **85.75%** |

## 4 BUSINESS COMBINATIONS AND ACQUSITION OF NON-CONTROLLING INTERESTS (continued)

### 4.1 Business combinations in 2012: (continued)

The acquiree companies been consolidated based on the provisional values assigned to the identifiable assets and liabilities as on the acquisition date and the management was in the process of determining the fair values of assets acquired and liabilities assumed.

During the year the Group has completed the fair values allocation exercise for the identifiable assets and liabilities as on the acquisition date, the fair values of the acquired assets and liabilities are not different from their provisionally determined fair values except as disclosed below in the table:

| | *Provisional fair values* | *Fair value adjustments* | *Final fair values* |
|---|---|---|---|
| | | | *KD 000's* |
| **Assets** | | | |
| Cash and cash equivalents | 17,181 | 2,535 | 19,716 |
| Accounts receivable and other assets | 62,251 | (6,126) | 56,125 |
| Inventories | - | 433 | 433 |
| Financial assets available for sale | 17,247 | (1,958) | 15,289 |
| Investment properties (Note 16) | 52,974 | 13,637 | 66,611 |
| Investment in associates and joint ventures | 12,677 | 18,863 | 31,540 |
| Leasehold rights (Note 20) | 126,097 | 4,824 | 130,921 |
| Property and equipment | 862 | 148 | 1,010 |
| | **289,289** | **32,356** | **321,645** |
| **Liabilities** | | | |
| Finance payables | 94,825 | 3,278 | 98,103 |
| Accounts payable and other liabilities | 104,083 | (3,937) | 100,146 |
| | **198,908** | **(659)** | **198,249** |
| **Net assets acquired** | **90,381** | **33,015** | **123,396** |
| Non-controlling interests in the acquiree at fair value | (33,691) | (6,419) | (40,110) |
| Fair value of acquirer's previously held interest | (45,852) | (15,066) | (60,918) |
| Gain on bargain purchase (Note 5) | 10,838 | 11,530 | 22,368 |
| Gain on settlement of pre-existing transactions between the Group and acquiree companies (Note 5) | 34,884 | 8,540 | 43,424 |
| Loss on remeasurement of previously held equity Interests (Note 5) | (5,353) | (3,055) | (8,408) |
| Loss in other comprehensive income (OCI) transferred to consolidated income statement on de-recognition (Note 5) | - | (727) | (727) |
| **Net gain on business combination** | **40,369** | **16,288** | **56,657** |

## 5 INVESTMENT INCOME

| | 2013 | 2012 |
|---|---|---|
| | | *KD 000's* |
| Gain on sale of real estate properties | **131,627** | 88,703 |
| Rental income from investment properties | **26,509** | 13,403 |
| Dividend income | **14,765** | 14,027 |
| Gain on part sale of associates | **128** | 4,269 |
| Gain on part sale of a subsidiary with loss of control | **1,443** | - |
| Gain on sale of financial assets available for sale | **11,636** | 34,581 |
| Sukook income | **23,710** | 19,388 |
| Gain on cancellation of aircraft contract | **7,119** | 7,043 |
| Gain on bargain purchase (Note 4) | **11,530** | 10,838 |
| Gain on bargain purchase of a joint venture | **-** | 3,447 |
| Gain on settlement of pre-existing transactions between the Group and acquire companies (Note 4) | **8,540** | 34,884 |
| Loss on remeasurement of previously held equity (Note 4) | **(3,055)** | (5,353) |
| Loss in other comprehensive income (OCI) transferred to consolidated income statement on de-recognition (Note 4) | **(727)** | - |
| Other investment income | **13,193** | 4,058 |
| | **246,418** | 229,288 |

## 6 OTHER INCOME

| | 2013 | 2012 |
|---|---|---|
| | | *KD 000's* |
| Income from sale of property and equipment | **4,274** | 6,689 |
| Real estate development and construction income | **4,875** | 437 |
| Gain on debt settlement | **8,506** | - |
| Income from maintenance, services, and consultancy | **15,578** | 16,171 |
| Rental income from operating lease | **9,729** | 8,466 |
| Other income | **17,553** | 358 |
| | **60,515** | 32,121 |

## 7 IMPAIRMENT

| | 2013 | 2012 |
|---|---|---|
| | | *KD 000's* |
| Relating to receivables: | | |
| International murabaha | **17,871** | 9,383 |
| Local murabaha and wakala | **139,908** | 173,229 |
| Istisna'a and other receivables | **(297)** | 1,368 |
| | **157,482** | 183,980 |
| Reversal of provision has been settled | **(17,112)** | (3,997) |
| Impairment of (reversal of) leased assets (Note 12) | **18,949** | (4,747) |
| Impairment of financial assets available for sale (Note 26) | **15,304** | 39,071 |
| Impairment of associates | **20,365** | 16,382 |
| Impairment of investment properties (Note 16) | **1,327** | 19,426 |
| Reversal of write down to net realizable value of trading properties | **-** | (2,934) |
| Impairment of property and equipment (Note 19) | **369** | 8,281 |
| Impairment of goodwill | **2,513** | 573 |
| Impairment of non cash facilities (Note 11) | **11,240** | 671 |
| Impairment of (reversal of) of other assets | **13,365** | (5,355) |
| | **223,802** | 251,351 |

## 8 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.

| | *2013* | *2012* |
|---|---|---|
| Profit for the year attributable to the equityholders of the Bank (KD thousands) | **115,893** | 87,676 |
| Weighted average number of shares outstanding during the year (thousand shares) | **3,545,307** | 3,311,776 |
| Basic and diluted earnings per share attributable to the equityholders of the Bank (fils) | **32.69** | 26.47 |

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 7 April 2013 (See note 30).

## 9 CASH AND CASH EQUIVALENTS

| | | *KD 000's* |
|---|---|---|
| | *2013* | *2012* |
| Cash | **147,087** | 96,437 |
| Balances with Central Banks | **535,639** | 345,225 |
| Balances with banks and financial institutions – current accounts | **384,341** | 192,025 |
| Balances with banks and financial institutions – exchange of deposits | **3,419** | 180,569 |
| Cash and balances with banks and financial institutions | **1,070,486** | 814,256 |
| Short-term murabaha – maturing within 3 months of contract date | **732,279** | 357,119 |
| Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date | **615,178** | 140,085 |
| Less: Statutory deposits with Central Banks | **(458,943)** | (319,098) |
| **Cash and cash equivalents** | **1,959,000** | 992,362 |

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* |
|---|---|---|
| | *2013* | *2012* |
| Due from banks and financial institutions | **117,226** | 492,388 |
| Due to banks and financial institutions | **(113,807)** | (311,819) |
| | **3,419** | 180,569 |

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

| | | *KD 000's* |
|---|---|---|
| | *2013* | *2012* |
| In assets: | | |
| Cash and balances with banks and financial institutions – exchange of deposits | **3,419** | 180,569 |

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

## 10 SHORT-TERM MURABAHA

| | KD 000's | |
|---|---|---|
| | *2013* | *2012* |
| Short-term murabaha with Banks | **693,425** | 785,748 |
| Short-term murabaha with Central Banks | **1,738,317** | 399,975 |
| | **2,431,742** | 1,185,723 |

## 11 RECEIVABLES

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

| | KD 000's | |
|---|---|---|
| | *2013* | *2012* |
| International murabaha | **2,165,975** | 2,213,439 |
| Local murabaha and wakala | **4,607,275** | 4,731,204 |
| Istisna'a and other receivables | **160,689** | 131,197 |
| | **6,933,939** | 7,075,840 |
| Less: impairment | **(433,639)** | (422,922) |
| | **6,500,300** | 6,652,918 |

The distribution of receivables is as follows:

| | KD 000's | |
|---|---|---|
| **Industry sector** | *2013* | *2012* |
| Trading and manufacturing | **3,475,642** | 3,180,240 |
| Banks and financial institutions | **366,078** | 507,551 |
| Constructions and real estates | **1,436,063** | 1,716,356 |
| Other | **1,656,156** | 1,671,693 |
| | **6,933,939** | 7,075,840 |
| Less: impairment | **(433,639)** | (422,922) |
| | **6,500,300** | 6,652,918 |

| | KD 000's | |
|---|---|---|
| **Geographic region** | *2013* | *2012* |
| Middle East | **3,792,632** | 4,103,950 |
| Western Europe | **140,764** | 150,204 |
| Other | **3,000,543** | 2,821,686 |
| | **6,933,939** | 7,075,840 |
| Less: impairment | **(433,639)** | (422,922) |
| | **6,500,300** | 6,652,918 |

## 11 RECEIVABLES (continued)

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

| | | | | | | *KD 000's* |
|---|---|---|---|---|---|---|
| | *Specific* | | *General* | | *Total* | |
| | *2013* | *2012* | *2013* | *2012* | *2013* | *2012* |
| Balance at beginning of year | **184,630** | 244,019 | **238,292** | 263,009 | **422,922** | 507,028 |
| Provided during the year (Note 7) | **156,948** | 157,414 | **534** | 26,566 | **157,482** | 183,980 |
| Amounts written off; net of foreign currency translation | **(142,630)** | (216,803) | **(4,135)** | (51,283) | **(146,765)** | (268,086) |
| Balance at end of year | **198,948** | 184,630 | **234,691** | 238,292 | **433,639** | 422,922 |
| International murabahas | **66,688** | 80,706 | **21,016** | 16,631 | **87,704** | 97,337 |
| Local murabahas and wakalas | **117,168** | 95,192 | **211,424** | 215,081 | **328,592** | 310,273 |
| Istisna'a and other receivables | **15,092** | 8,732 | **2,251** | 6,580 | **17,343** | 15,312 |
| | **198,948** | 184,630 | **234,691** | 238,292 | **433,639** | 422,922 |

**Non performing cash and non-cash financing facilities**

At 31 December 2013, non-performing finance facilities include receivables, leased assets and non cash facilities amounted to KD 844,381 thousand (2012: KD 679,630 thousand), KD 799,933 thousand (2012: KD 627,697 thousand) after excluding deferred revenue and suspended profit and KD 409,699 thousand (2012: KD 361,915 thousand) after excluding eligible collateral in accordance with CBK regulations for specific provision calculation.

| | | | ***KD 000's*** |
|---|---|---|---|
| | ***Pre-invasion*** | ***Post liberation*** | ***Total*** |
| *2013* | | | |
| Finance facilities | **8** | **844,373** | **844,381** |
| Impairment | **8** | **249,995** | **250,003** |
| *2012* | | | |
| Finance facilities | 10 | 679,620 | 679,630 |
| Impairment | 10 | 210,202 | 210,212 |

The provision charged for the year on non-cash facilities is KD 11,240 thousand (2012: KD 671 thousand) (Note 7). The available provision on non-cash facilities of KD 24,807 thousand (2012: KD 13,567 thousand) is included under other liabilities (Note 25).

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.

## 12 LEASED ASSETS

The net investment in leased assets comprises the following:

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| Gross investment | **2,044,309** | 1,741,992 |
| Less: Unearned revenue | **(43,012)** | (42,357) |
| Less: Impairment | **(62,818)** | (46,125) |
| | **1,938,479** | 1,653,510 |

Impairment on leased assets is as follows:

| | *Specific* | | *General* | | *Total* | *KD 000's* |
|---|---|---|---|---|---|---|
| | ***2013*** | *2012* | ***2013*** | *2012* | ***2013*** | *2012* |
| Balance at the beginning of year | **22,954** | 27,975 | **23,171** | 22,684 | **46,125** | 50,659 |
| Provided (reversal) during the year (Note 7) | **18,393** | (5,109) | **556** | 362 | **18,949** | (4,747) |
| Write off; net of foreign currency translation | **(2,188)** | 88 | **(68)** | 125 | **(2,256)** | 213 |
| Balance at the end of the year | **39,159** | 22,954 | **23,659** | 23,171 | **62,818** | 46,125 |

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

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| Within one year | **1,551,308** | 1,185,433 |
| One to five year | **288,053** | 315,573 |
| After five years | **204,948** | 240,986 |
| | **2,044,309** | 1,741,992 |

The unguaranteed residual value of the leased assets at 31 December 2013 is estimated at KD 120,046 thousand (2012: KD 34,128 thousand).

The fair value of leased assets at 31 December 2013 is KD 3,618,951 thousand (2012: KD 2,794,595 thousand).

## 13 FINANCIAL ASSETS AVAILABLE FOR SALE

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| Quoted equity investments | **56,066** | 45,934 |
| Unquoted equity investments | **213,816** | 258,836 |
| Managed portfolios | **157,796** | 183,559 |
| Mutual funds | **101,288** | 157,525 |
| Sukook | **686,857** | 602,918 |
| | **1,215,823** | 1,248,772 |
| Financial assets available for sale carried at fair value | **899,011** | 812,503 |
| Financial assets available for sale carried at cost less impairment | **316,812** | 436,269 |
| | **1,215,823** | 1,248,772 |

Included in managed portfolios are an amounts of KD 57,229 thousand (2012: KD 45,023 thousand) which represents the Group's investment in 73,370 thousand shares (2012: 55,584 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.91% of the total issued share capital at 31 December 2013 (2012: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

## 14 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

| | *Interest in equity %* | | *Country of registration* | *Principal activities* | *Financial statements reporting date* |
|---|---|---|---|---|---|
| | *2013* | *2012* | | | |
| *Direct investments in associates:* | | | | | |
| Specialties Group Holding Company K.S.C. (Closed) | **40** | 40 | Kuwait | Holding investments | 30 September 2013 |
| First Takaful Insurance Company K.S.C. (Closed) | **28** | 28 | Kuwait | Islamic takaful insurance | 30 September 2013 |
| Gulf Investment House K.S.C. (Closed) | **20** | 20 | Kuwait | Islamic investments | 30 September 2013 |
| Sharjah Islamic Bank P.J.S.C. | **20** | 20 | United Arab Emirates | Islamic banking services | 30 September 2013 |
| *Indirect significant investments in associates held through consolidated subsidiaries* | | | | | |
| Elaf Bank | **29** | - | Bahrain | Islamic banking service | 30 September 2013 |

## 14 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised aggregate information of the Group associates, as all associates are not individually material:

*Summarised financial position:*

| | | *KD 000's* |
|---|---|---|
| | *2013* | *2012* |
| Assets | **2,610,014** | 3,287,128 |
| liabilities | **(1,658,637)** | (2,368,599) |
| **Equity** | **951,377** | 918,529 |
| Carrying amount of the investment | **267,660** | 240,423 |
| *Summarised statement of income:* | | |
| Revenues | **331,243** | 354,697 |
| Expenses | **(282,061)** | (340,325) |
| **Profit for the year** | **49,182** | 14,372 |
| **Group's share of profit for the year** | **10,851** | 3,440 |

Investments in associates with a carrying amount of KD 140,216 thousand (2012: KD 151,382 thousand) have a market value of KD 108,456 thousand at 31 December 2013 (2012: KD 100,922 thousand) based on published quotes. The remaining associates with a carrying value of KD 127,444 thousand (2012: KD 89,041 thousand) are unquoted companies.

Dividend received from the associates during the current year amounted to KD 5,068 thousand (2012: KD 21,450 thousand).

## 15 INTEREST IN JOINT VENTURES

The major joint ventures of the Group are as follows:

| | *Interest in equity %* | | *Country of registration* | *Principal activities* | *Financial statements reporting date* |
|---|---|---|---|---|---|
| | *2013* | *2012* | | | |
| Durrat Khaleej Al-Bahrain Company B.S.C. | **50%** | 50% | Bahrain | Real estate development | 30 November 2013 |
| Diyar Homes Company W.L.L (Shoug Al Muharraq) | **50%** | 50% | Bahrain | Real estate development | 30 November 2013 |
| Al Durrat Al Tijaria Company W.L.L | **50%** | 50% | Bahrain | Real estate development | 30 November 2013 |
| Diyar Al Muharraq Company W.L.L. | **52%** | 52% | Bahrain | Real estate development | 30 November 2013 |
| PK Development Properties Company W.L.L. | **50%** | 50% | Bahrain | Real estate development | 30 November 2013 |
| Metragold Assets SDN BHD | **80%** | 80% | Malaysia | Real estate development | 30 September 2013 |
| Al Asad PTE LTD | **50%** | 50% | Singapore | Real estate development | 30 September 2013 |
| Intrared Holding Co. Limited | **60%** | 60% | Malaysia | Real estate development | 30 September 2013 |
| Queristics Investment Sarl, Europe | **95%** | 95% | Europe | Real estate development | 30 September 2013 |
| US Healthcare Venture LLC | **95%** | 95% | US | Real estate development | 30 September 2013 |
| K/UDR Venture LLC | **70%** | 70% | UK | Real estate development | 30 September 2013 |
| Killam KFH – Sigma Properties LP | **72.5%** | 72.5% | Canada | Real estate development | 30 September 2013 |
| DIC Frankfurt Objekt Zeil GmbH | **70%** | 70% | Germany | Rea estate development | 30 September 2013 |
| Orange Pearl Properties SCI - Sas Multibureaux, Paris | **70%** | 70% | Paris | Real estate development | 30 September 2013 |

The following table illustrates the summarised aggregate information of the Group joint ventures, as all joint ventures are not individually material:

*Summarised financial position:*

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| Assets | **864,234** | 851,818 |
| Liabilities | **(271,213)** | (270,616) |
| **Equity** | **593,021** | 581,202 |
| Carrying amount of the investment | **349,934** | 339,897 |

*Summarised statement of income:*

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| Revenues | **25,821** | 25,592 |
| Expenses | **(24,948)** | (29,194) |
| **Profit (loss) for the year** | **873** | (3,602) |
| **Group's share of profit (loss) for the year** | **52** | (1,804) |

## 15 INTEREST IN JOINT VENTURES (continued)

Upon adoption of IFRS 11, the Group has determined its interest in certain entities to be joint ventures and has accounted for the interest using the equity method. The effect of applying IFRS 11 on the comparative figures is as follows:

| | *31 December 2012* *KD 000's* |
|---|---|
| **Impact on the consolidated statement of financial position:** | |
| Decrease Financial assets available for sale | (127,488) |
| Increase in investment in joint venture | 127,488 |
| **Net impact on equity** | - |

**Impact on the consolidated statement of income:**

There was no impact on the consolidated statement of income for the year ended 31 December 2012.

## 16 INVESTMENT PROPERTIES

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| At 1 January | **557,264** | 536,358 |
| Arising on consolidation | **5,743** | 48,088 |
| Additions | **81,765** | 196,502 |
| Fair value adjustments (Note 4) | **13,637** | - |
| Transfer from property and equipment (Note 19) | **5,571** | 739 |
| Disposals | **(129,581)** | (198,796) |
| Depreciation charged for the year | **(8,730)** | (6,201) |
| Impairment loss charged for the year (Note 7) | **(1,327)** | (19,426) |
| At 31 December | **524,342** | 557,264 |

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| Developed properties | **354,220** | 391,108 |
| Properties under construction | **194,717** | 189,424 |
| | **548,937** | 580,532 |
| Less: Impairment | **(24,595)** | (23,268) |
| | **524,342** | 557,264 |

Investment properties with carrying value of KD 28,929 thousand belong to a subsidiary (2012: KD 43,777 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 26,674 thousand (2012: KD 34,584 thousand).

## 16 INVESTMENT PROPERTIES (continued)

The fair value of investment properties at the consolidated financial position date is KD 855,582 thousand (2012: KD 701,855 thousand).

The following is fair value hierarchy disclosures for classes of investment properties is as at 31 December:

| | *Fair value measurement using* | | | *KD 000's* 2013 | 2012 |
|---|---|---|---|---|---|
| | *Quoted prices in active markets (Level 1)* | *Significant observable inputs (Level 2)* | *Significant unobservable inputs (Level 3)* | *Total* | *Total* |
| Investment properties | - | **855,582** | - | **855,582** | 701,855 |

Investment properties have been valued based on valuations by independent valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment properties being valued. The valuation reflects market conditions at the reporting date with gap of no more than two months.

Investment properties classified as level 2 are valued using observable market inputs. Market comparable approach is used for all investment properties, where market price per square meter and annual income are significant inputs to the valuation.

## 17 OTHER ASSETS

| | *KD 000's* 2013 | 2012 |
|---|---|---|
| Precious metals inventory | **51,216** | 335,779 |
| Trade receivable | **190,556** | 176,185 |
| Clearing accounts | **62,575** | 117,585 |
| Goodwill | **10,816** | 45,612 |
| Receivables on disposals of investment | **55,607** | 30,887 |
| Deferred tax | **25,809** | 28,715 |
| Advances for purchase investment securities | - | 7,703 |
| Advances for investment properties | **34,116** | 5,550 |
| Other miscellaneous assets | **60,037** | 104,052 |
| | **490,732** | 852,068 |

## 18 INTANGIBLE ASSETS

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| **Cost** | | |
| At 1 January | **54,437** | 44,542 |
| Additions | **26,966** | 9,895 |
| Disposal | **(5,444)** | - |
| **At 31 December** | **75,959** | 54,437 |
| **Accumulated amortization** | | |
| At 1 January | **11,665** | 9,394 |
| Charge for the year | **8,425** | 2,271 |
| Disposals | **(1,229)** | - |
| **At 31 December** | **18,861** | 11,665 |
| **Net book value** | | |
| **At 31 December** | **57,098** | 42,772 |

Intangible assets amounted to KD 57,098 thousand (2012: 42,772 thousand ) include license of Islamic brokerage company of KD 14,671 thousand (2012 : KD 14,671 thousand) with indefinite useful life. The carrying value of brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit and as a result the management believes there are no indications of impairment. In addition, the balance includes exploration rights of KD 17,485 thousand (2012 : KD Nil) with finite useful life. Other intangible assets amounted to KD 24,942 thousand (2012: KD 28,101 thousand) represent software development cost , software license right and other rights with finite useful life. Intangible assets with finite lives are amortised over its useful economic life.

## 19 PROPERTY AND EQUIPMENT

*KD 000's*

| | *Land* | *Buildings* | *Aircraft and engines* | *Furniture, fixtures and equipment* | *Motor vehicles* | *Properties under development* | ***2013 Total*** |
|---|---|---|---|---|---|---|---|
| *Cost:* | | | | | | | |
| At 1 January 2013 | 18,765 | 82,808 | 696,892 | 181,140 | 28,198 | 40,871 | **1,048,674** |
| Additions | - | 11,699 | 111,946 | 27,991 | 23,655 | 29,661 | **204,952** |
| Disposals | (1,606) | (92) | (46,470) | (7,694) | (15,127) | (803) | **(71,792)** |
| Discontinued operations (Note 21) | - | - | - | (40,360) | - | - | **(40,360)** |
| Transfer to investment properties (Note 16) | - | - | - | - | - | (5,571) | **(5,571)** |
| Arising from consolidation | 856 | 3,511 | - | 13,662 | - | - | **18,029** |
| **At 31 December 2013** | **18,015** | **97,926** | **762,368** | **174,739** | **36,726** | **64,158** | **1,153,932** |
| *Accumulated depreciation:* | | | | | | | |
| At 1 January 2013 | - | 53,821 | 140,227 | 114,925 | 6,025 | - | **314,998** |
| Depreciation charge for the year | - | 1,985 | 27,339 | 17,004 | 4,451 | - | **50,779** |
| Relating to disposals | - | (37) | (22,819) | (2,187) | (3,464) | - | **(28,507)** |
| Discontinued operations (Note 21) | - | - | - | (9,138) | - | - | **(9,138)** |
| Impairment loss charged for the year (Note 7) | - | - | 239 | 130 | - | - | **369** |
| Arising from consolidation | - | 1,448 | - | 11,390 | - | - | **12,838** |
| **At 31 December 2013** | - | **57,217** | **144,986** | **132,124** | **7,012** | - | **341,339** |
| *Net carrying amount:* | | | | | | | |
| **At 31 December 2013** | **18,015** | **40,709** | **617,382** | **42,615** | **29,714** | **64,158** | **812,593** |

**19 PROPERTY AND EQUIPMENT (continued)**

*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 16) | - | - | - | - | - | (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 7) | - | 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 |

Included in property and equipment is 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 540,315 thousand (2012: KD 466,611 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender. The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 21% (2012: 21%) 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 70,094 thousand (2012: KD 58,501 thousand).

## 19 PROPERTY AND EQUIPMENT (continued)

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 377,933 thousand (2012: KD 253,153 thousand) and is receivable as follows:

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| Income receivable within one year | **56,092** | 47,572 |
| Income receivable within one year to five years | **208,598** | 156,549 |
| Income receivable after five years | **113,243** | 49,032 |
| | **377,933** | 253,153 |

## 20 LEASEHOLD RIGHTS

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| **Cost** | | |
| At 1 January | **126,097** | - |
| Fair value adjustments (Note 4) | **4,824** | - |
| Addition | **386** | 126,097 |
| At 31 December | **131,307** | 126,097 |
| **Accumulated amortization** | | |
| At 1 January | **-** | - |
| Charge for the year | **5,987** | - |
| At 31 December | **5,987** | - |
| **Net book value** | | |
| At 31 December | **125,320** | 126,097 |

Leasehold rights amounting to KD 125,320 thousands represents one of the Group's subsidiaries' right of using Zamzam tower which are amortised over the lease period of 19.5 years.

## 21 DISCONTINUED OPERATIONS

During the year, the Group announced its decision to dispose off its shares in Mena Telecom WLL and Motherwell Bridge Group Limited, a wholly owned subsidiaries to one of the group banking subsidiaries. Therefore, the operations of these subsidiaries are classified as a disposal group held for sale. The Group considered the subsidiaries to meet the criteria to be classified as held for sale for the following reasons:

- The subsidiaries are available for immediate sale and can be disposed of in their current condition.
- The actions to complete disposal were initiated and expected to be completed within one year from the date of the decision.

The results for the year from these subsidiaries are presented below:

| | *KD 000's* |
|---|---|
| | *2013* |
| Revenues | 30,924 |
| Expenses | (30,007) |
| Gross profit | 917 |
| Finance costs | (222) |
| Depreciation | (792) |
| Impairment loss recognized on the re-measurement to fair value less costs to sell | (1,547) |
| **Loss for the year from a discontinued operation** | **(1,644)** |

## 21 DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of classified as held for sale as at 31 December as, as follows:

| | *KD 000's* |
|---|---|
| | *2013* |
| *Assets* | |
| Goodwill | 20,829 |
| Property and equipment (Note 19) | 31,222 |
| Other assets | 12,498 |
| Cash and short-term deposits | 1,804 |
| **Total assets classified as held for sale** | **66,353** |
| *Liabilities* | |
| Other liabilities | 9,143 |
| Due to banks and financial institutions | 4,444 |
| **Liabilities directly associated with assets classified as held for sale** | **13,587** |
| **Net assets directly associated with disposal group** | **52,766** |

The net cash flows incurred are as follows:

| | *KD 000's* |
|---|---|
| | *2013* |
| Operating | 1,623 |
| Investing | (468) |
| Financing | (1,975) |
| **Net cash outflow** | **(820)** |

## 22 SUBSIDIARIES

*22.1 Details of principal operating material subsidiaries are set out below:*

| *Name* | *Country of registration* | *Interest in equity % 2013* | *2012* | *Principal activities* | *Financial statements reporting date* |
|---|---|---|---|---|---|
| Kuwait Finance House (Malaysia) Berhad | Malaysia | **100** | 100 | Islamic banking services | 30 November 2013 |
| KFH Private Equity Ltd. | Cayman | **100** | 100 | Islamic investments | 30 September 2013 |
| KFH Financial Service Ltd. | Cayman | **100** | 100 | International real estate development and investments | 30 September 2013 |
| Al Muthana Investment Company K.S.C. (Closed) | Kuwait | **100** | 100 | Islamic finance and investments | 30 September 2013 |
| KFH Real Estate Company K.S.C. (Closed) | Kuwait | **100** | 100 | Real estate development and leasing | 31 October 2013 |
| Development Enterprises Holding Company K.S.C. (Closed) | Kuwait | **100** | 100 | Infrastructure and industrial investments | 30 September 2013 |
| Baitak Real Estate Investment Company S.S.C. | Saudi Arabia | **100** | 100 | Real Estate development and investment | 30 September 2013 |
| KFH Investment Company K.S.C. (Closed) | Kuwait | **100** | 100 | Islamic finance and investments | 30 September 2013 |
| Saudi Kuwaiti Finance House S. S. C. (Closed) | Saudi Arabia | **100** | 100 | Islamic Investment | 30 September 2013 |
| International Turnkey Systems Company K.S.C. (Closed) | Kuwait | **97** | 97 | Computer maintenance, consultancy, and software services | 30 September 2013 |
| Kuwait Finance House B.S.C. | Bahrain | **100** | 93 | Islamic banking services | 30 November 2013 |
| Kuwait Turkish Participation Bank | Turkey | **62** | 62 | Islamic banking services | 30 November 2013 |
| ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed) | Kuwait | **53** | 53 | Aircraft leasing and financing services | 30 September 2013 |
| Aref Investment Group K.S.C. (Closed) | Kuwait | **52** | 52 | Islamic investments | 30 September 2013 |
| Al Enma'a Real Estate Company K.S.C. (Closed) | Kuwait | **50** | 50 | Real estate, investment, trading and real estate management | 31 October 2013 |
| Public Service Company K.S.C. (Closed) | Kuwait | **80** | 80 | Management consultancy and services | 30 September 2013 |

## 22 SUBSIDIARIES (continued)

### 22.2 *Material partly-owned subsidiaries*

Financial information of subsidiaries that have material non-controlling interests is provided below:

**Proportion of equity interest held by non-controlling interests:**

| | *Country of incorporation & operation* | | *Percentage* |
|---|---|---|---|
| | | *2013* | *2012* |
| Kuwait Turkish Participation Bank | Turkey | **38%** | 38% |
| ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed) | Kuwait | **47%** | 47% |
| Aref Investment Group K.S.C. (Closed) | Kuwait | **48%** | 48% |
| Al Enma'a Real Estate Company K.S.C. (Closed) | Kuwait | **50%** | 50% |

**Accumulated balances of material non-controlling interests:**

| | | | *KD 000's* |
|---|---|---|---|
| | | *2013* | *2012* |
| Kuwait Turkish Participation Bank | Turkey | **159,715** | 121,658 |
| ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed) | Kuwait | **85,019** | 77,076 |
| Aref Investment Group K.S.C. (Closed) | Kuwait | **37,517** | 43,596 |
| Al Enma'a Real Estate Company K.S.C. (Closed) | Kuwait | **21,938** | 22,892 |

**Profit (loss) allocated to material non-controlling interests:**

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

**Summarised consolidated statement of income for 31 December 2013:**

| | | | | *KD 000's* |
|---|---|---|---|---|
| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
| Revenues | 267,499 | 60,682 | 51,507 | 5,491 |
| Expenses | (216,437) | (40,033) | (49,565) | (7,409) |
| **Profit (loss) for the year** | **51,062** | **20,649** | **1,942** | **(1,918)** |
| Attributable to non-controlling interests | 19,403 | 9,705 | 932 | (959) |

**22 SUBSIDIARIES (continued)**

***22.2 Material partly-owned subsidiaries (continued)***

Summarised consolidated statement of income for 31 December 2012:

| | | | | *KD 000's* |
|---|---|---|---|---|
| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
| Revenues | 262,087 | 63,140 | 35,746 | 4,235 |
| Expenses | (217,852) | (50,796) | (5,000) | (8,105) |
| Profit (loss) for the year | 44,235 | 12,344 | 30,746 | (3,870) |
| Attributable to non-controlling interests | 16,810 | 5,801 | 14,758 | (1,935) |

**Summarised statement of financial position as at 31 December 2013:**

| | | | | *KD 000's* |
|---|---|---|---|---|
| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
| Total assets | 3,378,060 | 662,704 | 191,611 | 73,371 |
| Total liabilities | 2,957,757 | 481,813 | 113,451 | 29,495 |
| **Total equity** | **420,303** | **180,891** | **78,160** | **43,876** |
| Attributable to non-controlling interests | 159,715 | 85,019 | 37,517 | 21,938 |

Summarised statement of financial position as at 31 December 2012:

| | | | | *KD 000's* |
|---|---|---|---|---|
| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
| Total assets | 3,022,806 | 579,040 | 469,887 | 79,850 |
| Total liabilities | 2,702,653 | 415,049 | 379,062 | 34,066 |
| Total equity | 320,153 | 163,991 | 90,825 | 45,784 |
| Attributable to non-controlling interests | 121,658 | 77,076 | 43,596 | 22,892 |

**Summarised cash flow information for year ending 31 December 2013:**

| | | | | *KD 000's* |
|---|---|---|---|---|
| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
| Operating | 128,576 | 61,734 | 15,396 | (131) |
| Investing | (5,249) | (84,725) | 12,807 | 1,482 |
| Financing | 99,369 | 42,628 | (7,848) | (2,062) |
| **Net increase (decrease) in cash and cash equivalents** | **222,696** | **19,637** | **20,355** | **(711)** |

## 22 SUBSIDIARIES (continued)

### *22.2 Material partly-owned subsidiaries (continued)*

Summarised cash flow information for year ending 31 December 2012:

| | *KFH-Turkey* | *ALAFCO* | *Aref* | *Al Enma'a* |
|---|---|---|---|---|
| | | | | *KD 000's* |
| Operating | 43,633 | 61,345 | 19,054 | 3,201 |
| Investing | 13,031 | (1,992) | 47,948 | (4,998) |
| Financing | 67,135 | (49,092) | (11,077) | 1,879 |
| Net increase in cash and cash equivalents | 123,799 | 10,261 | 55,925 | 82 |

## 23 DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| Current accounts | **2,015** | 2,510 |
| Murabaha payable | **1,984,873** | 1,786,278 |
| Sukook payable | **82,822** | 111,176 |
| Obligations under finance leases | **398,816** | 354,886 |
| | **2,468,526** | 2,254,850 |

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

Property and equipment include 45 aircraft acquired by a subsidiary under finance leases denominated in US dollars: 10 aircrafts with finance lease obligations maturing within 5 years and 35 aircraft with lease obligations maturing after 5 years. The obligations under finance leases are secured by aircrafts.

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

| | *2013* | | *2012* | *KD 000's* |
|---|---|---|---|---|
| | ***Minimum payments*** | ***Present value of payments*** | *Minimum payments* | *Present value of payments* |
| Within one year | **53,928** | **44,671** | 41,147 | 32,760 |
| After one year but not more than five years | **206,718** | **179,849** | 180,157 | 156,769 |
| After 5 years | **184,889** | **174,296** | 174,696 | 165,357 |
| Total minimum lease payments | **445,535** | **398,816** | 396,000 | 354,886 |
| Less: amounts representing finance charges | **(46,719)** | **-** | (41,114) | - |
| Present value of minimum lease payments | **398,816** | **398,816** | 354,886 | 354,886 |

## 24 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:

| | *2013* *% per annum* | *2012* *% per annum* |
|---|---|---|
| Investment deposits - ("Khumasia") | **2.180** | 2.147 |
| Investment deposits - ("Mustamera") | **1.962** | 1.932 |
| Investment deposits - ("Sedra") | **1.526** | 1.503 |
| Investment savings accounts ("Tawfeer") | **1.308** | 1.288 |

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

## 25 OTHER LIABILITIES

| | | *KD 000's* |
|---|---|---|
| | *2013* | *2012* |
| Trade payables | **185,251** | 203,108 |
| Accrued expenses | **102,786** | 120,168 |
| Certified cheques | **116,003** | 114,395 |
| Due to customers for contract work | **71,206** | 93,593 |
| Maintenance reserve | **57,262** | 40,072 |
| Employees' end of service benefits | **49,542** | 37,186 |
| Letter of guarantee covered | **36,687** | 31,013 |
| Refundable deposits | **15,705** | 15,535 |
| Provision on non cash facilities (Note 11) | **24,807** | 13,567 |
| Other miscellaneous liabilities | **89,491** | 66,348 |
| | **748,740** | 734,985 |

## 26 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.

| | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| | *Financial assets available for sale* | *Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts* | *Other reserves* | ***Total*** | *Total* |
| | | | | | ***KD 000's*** |
| Balance at 1 January | (1,986) | 1,712 | (8,920) | **(9,194)** | (13,003) |
| Change in fair value of financial assets available for sale | (15,130) | - | - | **(15,130)** | (29,576) |
| Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts | - | 5 | - | **5** | 1,337 |
| (Gain) loss realised on financial assets available for sale during the year | (5,949) | - | - | **(5,949)** | 1,883 |
| Impairment loss transferred to consolidated statement of income (Note 7) | 15,304 | - | - | **15,304** | 39,071 |
| Share of other comprehensive income of associates and joint ventures | 1,403 | - | - | **1,403** | 14 |
| Change in the ownership interest in subsidiaries without loss of control | - | - | - | - | (8,920) |
| Balance at 31 December | **(6,358)** | **1,717** | **(8,920)** | **(13,561)** | (9,194) |

## 27 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.

## 28 SHARE CAPITAL AND SHARE PREMIUM

The extraordinary general assembly meeting of the shareholders of the Bank held on 24 April 2013 approved an increase in the authorised share capital by 20% by issuing right shares for the existing shareholders of 638,916,063 shares to the current equityholders. The share price is 500 fils per share (100 fils par value and 400 fils share premium). Accordingly, the authorised, issued and fully paid-up share capital at 31 December 2013 comprises of 3,833,496 thousand shares (31 December 2012: 2,904,164 thousand) shares of 100 fils each. Further, the Bank's ordinary general assembly of the shareholders held on 7 April 2013 approved 10% bonus shares on outstanding shares amounting to KD 29,042 thousand for the year ended 31 December 2012 (31 December 2011: KD 21,512 thousands) (Note 30).

*Share capital*

| | | *KD 000's* |
|---|---|---|
| | *2013* | *2012* |
| Authorized, issued and fully paid : | | |
| 3,833,496,379 (2012: 2,904,163,924) shares of 100 fils each | **383,350** | 290,416 |

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

| | *2013* | *2012* |
|---|---|---|
| Number of shares in issue 1 January | **2,904,163,924** | 2,689,040,671 |
| Bonus issue (Note 30) | **290,416,392** | 215,123,253 |
| Right issue (Note 30) | **638,916,063** | - |
| **Number of shares in issue 31 December** | **3,833,496,379** | 2,904,163,924 |

*Treasury shares and treasury share reserve.*

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

| | *2013* | *2012* |
|---|---|---|
| Number of treasury shares | **66,745,262** | 61,237,670 |
| Treasury shares as a percentage of total shares in issue | **1.74%** | 2.11% |
| Cost of treasury shares (KD) | **56,118,057** | 54,028,034 |
| Market value of treasury shares (KD) | **52,728,757** | 49,602,512 |

Movement in treasury shares was as follows:

| | | *KD 000's* | | *No. of shares* |
|---|---|---|---|---|
| | *2013* | *2012* | *2013* | *2012* |
| Balance as at 1 January | **54,028** | 46,813 | **61,237,670** | 47,520,217 |
| Additions | **23,059** | 7,215 | **23,626,084** | 9,915,819 |
| Bonus issue | - | - | **7,710,143** | 3,801,634 |
| Disposal | **(20,969)** | - | **(25,828,635)** | - |
| **Balance as at 31 December** | **56,118** | 54,028 | **66,745,262** | 61,237,670 |

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

## 29 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 12,006 thousand equivalent to approximately 10% (2012: KD 9,087 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 283,584 thousand (2012: KD 271,578 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 5,084 thousand equivalent to 4% (2012: KD 21,118 thousand equivalent to 23%) of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve to reach KD 287,942 thousand (2012: KD 286,973 thousand).

The share premium balance is not available for distribution.

## 30 PROPOSED DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 13% for the year ended 31 December 2013 (2012: 10%) and issuance of bonus shares of 13% (2012: 10%) of paid up share capital as follows:

| | | | | ***KD 000's*** |
|---|---|---|---|---|
| | ***2013*** | | ***2012*** | |
| | | ***Total*** | | ***Total*** |
| Proposed cash dividends (per share)* | **13 fils** | **48,968** | 10 fils | 28,429 |
| Proposed issuance of bonus shares (per 100 shares)* | **13 shares** | **49,835** | 10 shares | 29,042 |

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.

The Board of Directors of the Bank has proposed Directors' fees of KD 580 thousand (2012: KD 905 thousand, of which KD 385 thousand was reversed during 2013) (Note 33) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equityholders of the Bank.

*Bonus shares of 10% on outstanding shares amounting KD 29,042 thousands and cash dividends of 10 fils per share proposed for the year ended 31 December 2012, to the Bank's shareholders on record as of the date of the general assembly, were approved by the Bank's ordinary general assembly of the shareholders held on 7 April 2013 and paid during the year. Further, the extraordinary general assembly meeting of the shareholders of the Bank held on 24 April 2013 approved an increase in the authorised share capital by 20% by issuing right shares (Note 28).

On 14 January 2013, the Board of Directors of the Bank had proposed Directors' fees of KD 905 thousand for the year ended 31 December 2012 (2011: KD 260 thousand), which was subject to approval by the annual general assembly of the shareholders of the Bank. On 4 April 2013, The Board of Directors of the Bank resolved in their meeting to cancel the Directors' fees proposed earlier. Subsequently in the ordinary general assembly meeting of the shareholders of the Bank held on 7 April 2013, the shareholders approved Directors' fees of KD 520 thousand (2011: KD 260 thousand) for the year ended 31 December 2012, and the Bank as a result reversed KD 385 thousand (Note 33).

## 31 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* | |
|---|---|---|
| | *2013* | *2012* |
| Acceptances and letters of credit | **239,822** | 209,079 |
| Letter of Guarantees | **1,403,771** | 1,220,710 |
| Contingent liabilities | **1,643,593** | 1,429,789 |

| | *KD 000's* | |
|---|---|---|
| | *2013* | *2012* |
| Associates | **2,500** | 2,500 |
| Purchase of aircrafts and engines | **1,413,650** | 1,317,800 |
| Other commitments | **331,788** | 381,887 |
| Capital commitments | **1,747,938** | 1,702,187 |

## 32 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 2013, 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.

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

*KD 000's*

| | *Positive fair value* | *Negative fair value* | *Notional amount* | *Notional amounts by term to maturity* | | |
|---|---|---|---|---|---|---|
| | | | | *Within 3 months* | *3 to 12 months* | *More than 12 months* |
| ***31 December 2013*** | | | | | | |
| Cash flow hedges | | | | | | |
| Forward contracts | - | - | - | - | - | - |
| Currency swaps | - | (164) | 5,522 | - | 5,522 | - |
| | - | (164) | 5,522 | - | 5,522 | - |
| Not designated as hedges | | | | | | |
| Forward contracts | 13,622 | (4,320) | 331,627 | 215,917 | 90,078 | 25,632 |
| Profit rate swaps | 1,295 | (13) | 22,720 | - | - | 22,720 |
| Currency swaps | 713 | (3,520) | 304,727 | 267,338 | 26,852 | 10,537 |
| Embedded precious metals | - | (77) | 189,109 | - | 77,055 | 112,054 |
| | **15,630** | **(7,930)** | **848,183** | **483,255** | **193,985** | **170,943** |
| | **15,630** | **(8,094)** | **853,705** | **483,255** | **199,507** | **170,943** |

*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 |

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

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:

| | | | | ***KD 000's*** |
|---|---|---|---|---|
| | *Notional amount* | *Within 3 months* | *3 to 12 Months* | *More than 12 months* |
| ***31 December 2013*** | | | | |
| Cash inflows | 853,705 | 483,255 | 199,507 | 170,943 |
| Cash outflows | (658,491) | (483,795) | (118,653) | (56,043) |
| **Net cash flows** | **195,214** | **(540)** | **80,854** | **114,900** |
| *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 |

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

## 33 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* | ***2013*** | *2012* |
| Financing income | - | 3,497 | 1,707 | 2,774 | **7,978** | 5,898 |
| Gain on sale of investment properties | 26,448 | - | - | - | **26,448** | - |
| Fee and commission income | - | 88 | - | 845 | **933** | 763 |
| Finance costs | 8,183 | 54 | - | 239 | **8,476** | 8,788 |

## 33 RELATED PARTY TRANSACTIONS (continued)

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

| | *Major shareholders* | *Associates* | *Board Members and Executive Officers* | *Other related party* | *KD 000's Total 2013* | *2012* |
|---|---|---|---|---|---|---|
| Receivables | - | 94,266 | 11,584 | 68,084 | **173,934** | 190,779 |
| Due to banks and financial institutions | 1,044,176 | 19,768 | - | 4,817 | **1,068,761** | 1,079,301 |
| Depositors' accounts | 44 | 29,562 | 8,413 | 34,065 | **72,084** | 54,345 |
| Contingencies and capital commitments | 936 | 7,775 | 6 | 12,722 | **21,439** | 6,752 |
| Investment managed by related party | - | - | - | 45,522 | **45,522** | 48,583 |

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* | |
|---|---|---|---|---|---|---|
| | *2013* | *2012* | *2013* | *2012* | *2013* | *2012* |
| **Board Members** | | | | | | |
| Finance facilities | **22** | 25 | **2** | 2 | **8,372** | 15,411 |
| Credit cards | **8** | 7 | **3** | 3 | **14** | 53 |
| Deposits | **49** | 60 | **44** | 39 | **7,247** | 4,825 |
| Collateral against financing facilities | **9** | 11 | - | - | **17,744** | 20,342 |
| **Executive officers** | | | | | | |
| Finance facilities | **24** | 33 | **5** | 6 | **4,026** | 5,061 |
| Credit cards | **10** | 12 | **1** | 4 | **32** | 30 |
| Deposits | **48** | 43 | **41** | 56 | **2,799** | 4,236 |
| Collateral against finance facilities | **16** | 27 | **3** | 1 | **7,512** | 7,600 |

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

| | *Parent* | *Subsidiaries* | *KD 000's Total 2013* | *2012* |
|---|---|---|---|---|
| **Board Members** | | | | |
| Finance income | 61 | 388 | **449** | 683 |
| **Executive officers** | | | | |
| Finance income | 70 | 1,174 | **1,244** | 550 |
| | 131 | **1,562** | **1,693** | 1,233 |

## 33 RELATED PARTY TRANSACTIONS (continued)

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

| | *Parent* | *Subsidiaries* | ***Total*** *2013* | *2012* |
|---|---|---|---|---|
| | | | | ***KD 000's*** |
| Salaries, allowances and bonuses of key management personnel | 4,476 | 11,063 | **15,539** | 12,956 |
| Termination benefits of key management personnel | 501 | 1,354 | **1,855** | 1,212 |
| Remuneration of chairman and board members* (Note 30) | 580 | 818 | **1,398** | 2,893 |
| Reversal of remuneration of chairman and board members for the year 2012 (Note 30) | (385) | - | **(385)** | - |
| | **5,172** | **13,235** | **18,407** | 17,061 |

** 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.

## 34 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.

| ***31 December 2013*** | *Treasury* | *Investment* | *Banking* | *Other* | ***KD 000's*** *Total* |
|---|---|---|---|---|---|
| Total assets | **3,701,411** | **4,099,275** | **7,182,292** | **1,156,812** | **16,139,790** |
| Total liabilities | **2,588,234** | **93,713** | **10,122,221** | **530,671** | **13,334,839** |
| Income | **95,992** | **172,864** | **620,314** | **107,008** | **996,178** |
| Impairment | **(496)** | **(36,201)** | **(174,618)** | **(12,487)** | **(223,802)** |
| Finance costs | **(31,362)** | **(22,225)** | **-** | **(9,456)** | **(63,043)** |
| Profit before distribution to depositors | **36,800** | **80,502** | **263,792** | **(55,903)** | **325,191** |

## 34 SEGMENTAL ANALYSIS (continued)

| *31 December 2012* | *Treasury* | *Investment* | *Banking* | *Other* | *KD 000's* *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 | 660,047 | 103,815 | 928,803 |
| Impairment | (3,034) | (62,946) | (181,824) | (3,547) | (251,351) |
| 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 |

***Secondary segment information***

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

| | *Assets* | | *Liabilities* | | ***KD 000's*** ***Contingencies and capital commitments*** | |
|---|---|---|---|---|---|---|
| | ***2013*** | *2012* | ***2013*** | *2012* | ***2013*** | *2012* |
| **Geographical areas:** | | | | | | |
| The Middle East | **10,550,239** | 9,371,307 | **9,891,280** | 8,862,832 | **531,598** | 462,993 |
| North America | **430,589** | 478,985 | **182,600** | 104,694 | **206,604** | 118,007 |
| Western Europe | **405,902** | 685,568 | **281,064** | 399,550 | **1,207,048** | 1,201,547 |
| Other | **4,753,060** | 4,167,441 | **2,979,895** | 3,015,435 | **1,446,281** | 1,349,429 |
| | **16,139,790** | 14,703,301 | **13,334,839** | 12,382,511 | **3,391,531** | 3,131,976 |

| | *Local* | | *International* | | ***KD 000's*** *Total* | |
|---|---|---|---|---|---|---|
| | ***2013*** | *2012* | ***2013*** | *2012* | ***2013*** | *2012* |
| Income | **525,879** | 485,733 | **470,299** | 443,070 | **996,178** | 928,803 |
| Profit before distribution to depositors | **190,182** | 158,568 | **135,009** | 139,039 | **325,191** | 297,607 |

## 35 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.

## 35 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

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

| | *2013* | *2012* |
|---|---|---|
| | | *KD 000's* |
| Trading and manufacturing | **3,792,208** | 3,364,412 |
| Banks and financial institutions | **4,500,472** | 3,110,698 |
| Construction and real estate | **4,526,888** | 4,405,867 |
| Other | **3,320,222** | 3,822,324 |
| | **16,139,790** | 14,703,301 |

(b) The distribution of liabilities was as follows:

| | **2013** | | | 2012 | | *KD 000's* |
|---|---|---|---|---|---|---|
| | ***Banking*** | ***Non-banking*** | ***Total*** | *Banking* | *Non-banking* | *Total* |
| **Geographic region** | | | | | | |
| The Middle East | **9,445,484** | **445,796** | **9,891,280** | 8,421,254 | 441,578 | 8,862,832 |
| North America | **22,733** | **159,867** | **182,600** | 45,610 | 59,084 | 104,694 |
| Western Europe | **19,169** | **261,895** | **281,064** | 78,794 | 320,756 | 399,550 |
| Other | **2,949,588** | **30,307** | **2,979,895** | 2,970,779 | 44,656 | 3,015,435 |
| | **12,436,974** | **897,865** | **13,334,839** | 11,516,437 | 866,074 | 12,382,511 |

## 36 FOREIGN CURRENCY EXPOSURE

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

| | ***KD 000's*** | *KD 000's* |
|---|---|---|
| | ***2013 Equivalent Long (short)*** | *2012 Equivalent Long (short)* |
| U.S. Dollars | **273,218** | 312,968 |
| Sterling Pounds | **11,251** | 12,970 |
| Euros | **9,630** | 8,602 |
| Gulf Cooperation Council currencies | **177,606** | 304,337 |
| Others | **(240,876)** | (148,195) |

## 37 RISK MANAGEMENT

Risk management is an integral part of the decision-making processes in the group. It is implemented under the governance process that confirms the existence of an independent risk assessment and control, control and surveillance carried directly by the Board of Directors and senior management. The Group works continuously on upgrading the capabilities of risk management in the light of business sector developments, also in the light of banking system instructions developments, stock exchange regulations and the best practices applied in risk management including the "three lines of defense".

First line of defense is the business units, which manages the relationship with the client. Its responsibility lies in understanding the customer's requirements to reduce the risk of mitigating customer defaults or risk of early withdrawal of deposits. Business units are also responsible to maintain the processes through which the Group serves the customer in order to mitigate any operational risk and reputation risk.

## 37 RISK MANAGEMENT (continued)

The functions of risk management and financial control represent the second line of defense. It is responsible for the development of frameworks for risk management and financial control. It is responsible for conducting and directing an independent assessment of risk management and control activities.

The third line of defense contains the functions of affirmation and security, which is a policy to comply with laws and regulations and anti-money laundering as well as the internal audit process. This line is responsible for ensuring compliance with regulatory as well as internal policies and to identify weaknesses so that corrective actions can be taken by management.

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.

*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.

## 37 RISK MANAGEMENT (continued)

**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.

## 38 CREDIT RISK

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

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

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

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

| | | *KD 000's* | |
|---|---|---|---|
| | *Notes* | *2013* | *2012* |
| Balances with banks and financial institutions | | **923,400** | 717,819 |
| Short-term murabaha | | **2,431,742** | 1,185,723 |
| Receivables | 11 | **6,500,300** | 6,652,918 |
| Leased assets | 12 | **1,938,479** | 1,653,510 |
| Financial assets available for sale – Sukook | 13 | **686,857** | 602,918 |
| Trade and other receivables | | **250,556** | 176,185 |
| Total | | **12,731,334** | 10,989,073 |
| Contingent liabilities | 31 | **1,643,593** | 1,429,789 |
| Commitments | 31 | **1,747,938** | 1,702,187 |
| Total | | **3,391,531** | 3,131,976 |
| **Total credit risk exposure** | | **16,122,865** | 14,121,049 |

**38 CREDIT RISK (continued)**

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 2013 was KD 200,339 thousands (2012: KD 100,414 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*

| | 2013 *Banking* | 2013 *Non-banking* | 2013 *Total* | 2012 *Banking* | 2012 *Non-banking* | 2012 *Total* |
|---|---|---|---|---|---|---|
| The Middle East | **8,061,589** | **268,438** | **8,330,027** | 7,211,955 | 210,175 | 7,422,130 |
| North America | **45,535** | **451** | **45,986** | 71,321 | 17,301 | 88,622 |
| Western Europe | **13,786** | **12,323** | **26,109** | 181,186 | 14,922 | 196,108 |
| Other | **4,254,723** | **74,489** | **4,329,212** | 3,157,919 | 124,294 | 3,282,213 |
| | **12,375,633** | **355,701** | **12,731,334** | 10,622,381 | 366,692 | 10,989,073 |

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

*KD 000's*

| | 2013 *Banking* | 2013 *Non-banking* | 2013 *Total* | 2012 *Banking* | 2012 *Non-banking* | 2012 *Total* |
|---|---|---|---|---|---|---|
| Trading and manufacturing | **3,534,073** | **19,143** | **3,553,216** | 3,073,401 | 24,574 | 3,097,975 |
| Banks and financial institutions | **3,901,282** | **119,383** | **4,020,665** | 2,966,155 | 111,105 | 3,077,260 |
| Construction and real estate | **2,982,829** | **151,001** | **3,133,830** | 2,991,407 | 144,551 | 3,135,958 |
| Other | **1,957,449** | **66,174** | **2,023,623** | 1,591,418 | 86,462 | 1,677,880 |
| | **12,375,633** | **355,701** | **12,731,334** | 10,622,381 | 366,692 | 10,989,073 |

**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:

*KD 000's*

| | *Neither past due nor impaired* *High grade* | *Neither past due nor impaired* *Standard grade* | *Past due or impaired* | *Total* |
|---|---|---|---|---|
| *31 December 2013* | | | | |
| Receivables: | | | | |
| International murabahas | **458,955** | **1,529,248** | **90,067** | **2,078,270** |
| Local murabahas and wakala | **-** | **3,615,925** | **662,758** | **4,278,683** |
| Istisna'a and other receivables | **344** | **63,576** | **79,427** | **143,347** |
| | **459,299** | **5,208,749** | **832,252** | **6,500,300** |
| Leased assets (Note 12) | **-** | **1,534,478** | **404,001** | **1,938,479** |
| Financial assets available for sale – sukook (Note13) | **368,181** | **291,476** | **27,200** | **686,857** |
| | **827,480** | **7,034,703** | **1,263,453** | **9,125,636** |

**38 CREDIT RISK (continued)**

*KD 000's*

| | *Neither past due nor impaired* | | | |
|---|---|---|---|---|
| | *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 12) | - | 1,303,864 | 349,646 | 1,653,510 |
| Financial assets available for sale – sukook (Note13) | 272,084 | 316,771 | 14,063 | 602,918 |
| | 723,031 | 6,944,554 | 1,241,761 | 8,909,346 |

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

***KD 000's***

| | *Less than 30 days* | *31 to 60 days* | *61 to 90 days* | *Total* |
|---|---|---|---|---|
| ***31 December 2013*** | | | | |
| Local murabahas | **254,708** | **80,081** | **95,900** | **430,689** |
| Istisna'a and other receivables | **51,803** | **624** | **21,230** | **73,657** |
| Leased assets | **74,486** | **34,673** | **34,391** | **143,550** |
| | **380,997** | **115,378** | **151,521** | **647,896** |
| *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 |

The value of rescheduled facilities during 2013 amounted to KD 404,934 thousand (2012 : KD 190,488 thousand).

Credit risk exposure for each internal credit risk rating.

It is the Group 's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

**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.

**38 CREDIT RISK (continued)**

**Collateral (continued)**
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 impaired at 31 December 2013 amounts to KD 735,865 thousand (2012: KD 326,943 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2013 was KD 149,927 thousand (2012: KD 83,483 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

**39 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:

| | *2013* | *2012* |
|---|---|---|
| | *%* | *%* |
| 31 December | **37** | 23 |
| Average during the year | **30** | 24 |
| Highest | **37** | 27 |
| Lowest | **24** | 21 |

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.

### 39 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2013 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 | 1,070,486 | - | - | - | **1,070,486** |
| Short-term murabaha | 2,431,742 | - | - | - | **2,431,742** |
| Receivables | 583,180 | 1,116,700 | 1,387,540 | 3,412,880 | **6,500,300** |
| Trading properties | 7,263 | 215,667 | 3,499 | 62,499 | **288,928** |
| Leased assets | 547,177 | 345,387 | 631,231 | 414,684 | **1,938,479** |
| Financial assets available for sale | 22,666 | 50,508 | 3,337 | 1,139,312 | **1,215,823** |
| Investments in associates and joint ventures | - | - | - | 617,594 | **617,594** |
| Investment properties | - | - | - | 524,342 | **524,342** |
| Other assets | 152,072 | 104,733 | 35,318 | 198,609 | **490,732** |
| Intangible assets | 242 | 158 | 15,405 | 41,293 | **57,098** |
| Property and equipment | - | - | - | 812,593 | **812,593** |
| Leasehold rights | - | - | - | 125,320 | **125,320** |
| Assets classified as held for sale | - | - | 66,353 | - | **66,353** |
| | **4,814,828** | **1,833,153** | **2,142,683** | **7,349,126** | **16,139,790** |
| ***Liabilities*** | | | | | |
| Due to banks and financial institutions | 1,117,522 | 506,898 | 302,427 | 541,679 | **2,468,526** |
| Depositors' accounts | 6,617,946 | 455,812 | 193,474 | 2,836,754 | **10,103,986** |
| Other liabilities | 141,828 | 28,457 | 39,981 | 538,474 | **748,740** |
| Liabilities directly associated with assets classified as held for sale | - | - | 13,587 | - | **13,587** |
| | **7,877,296** | **991,167** | **549,469** | **3,916,907** | **13,334,839** |

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 | 1,129,612 | 1,248,772 |
| Investments in associates | - | - | - | 580,320 | 580,320 |
| Investment properties | - | - | - | 557,264 | 557,264 |
| Other assets | 462,265 | 92,533 | 37,964 | 259,306 | 852,068 |
| Intangible assets | - | - | - | 42,772 | 42,772 |
| Property and equipment | - | - | - | 733,676 | 733,676 |
| Leasehold rights | - | - | - | 126,097 | 126,097 |
| | 4,283,189 | 1,534,768 | 1,818,343 | 7,067,001 | 14,703,301 |

## 39 LIQUIDITY RISK (continued)

| | *Within 3 months* | *3 to 6 Months* | *6 to 12 months* | *After one year* | *KD 000's* *Total* |
|---|---|---|---|---|---|
| *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 |

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

| | *On demand* | *Less than 3 Months* | *3 to 12 Months* | *1 to 5 years* | *Over 5 years* | ***KD 000's*** *Total* |
|---|---|---|---|---|---|---|
| *2013* | | | | | | |
| Contingent liabilities | **461,255** | **481,348** | **331,842** | **293,409** | **75,739** | **1,643,593** |
| Capital commitments | **324,633** | **-** | **27,590** | **426,076** | **969,639** | **1,747,938** |
| **Total** | **785,888** | **481,348** | **359,432** | **719,485** | **1,045,378** | **3,391,531** |

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

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

## 40 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.

**40 MARKET RISK (continued)**

***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, wherever 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 2013 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* |
|---|---|---|---|---|---|---|
| | ***2013*** | | | *2012* | | |
| ***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 | **2,732** | **6,784** | +1 | 3,130 | 1,579 |
| Sterling Pounds | +1 | **113** | **46** | +1 | 130 | 160 |

***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* |
|---|---|---|---|---|
| | ***2013*** | | *2012* | |
| | ***Change in equity price %*** | ***Effect on fair value reserve*** | *Change in equity price %* | *Effect on fair value reserve* |
| ***Market indices*** | | | | |
| Kuwait Stock Exchange | +1 | **2,394** | +1 | 2,054 |
| Other GCC indices | +1 | **1,037** | +1 | 585 |

## 40 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.

### Country risk

Country risk is the risk that an occurrence within a country could have an adverse effect on the Bank directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Bank. Generally, these occurrences relate, but are not limited to: sovereign events such as defaults or restructuring; political events such as contested elections; restrictions on currency movements; non–market currency convertibility; regional conflicts; economic contagion from other events such as sovereign default issues or regional turmoil; banking and currency crisis; and natural disasters.

## 41 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:

| **Capital adequacy** | *KD 000's* *2013* | *KD 000's* *2012* |
|---|---|---|
| Risk Weighted Assets | **11,243,127** | 11,085,751 |
| Capital required | **1,349,176** | 1,330,289 |
| Capital available | | |
| Tier 1 capital | **1,937,094** | 1,503,852 |
| Tier 2 capital | **23,852** | 40,851 |
| Total capital | **1,960,946** | 1,544,703 |
| Tier 1 capital adequacy ratio | **17.23%** | 13.57% |
| Total capital adequacy ratio | **17.44%** | 13.93% |

## 41 CAPITAL MANAGEMENT (continued)

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.

## 42 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.

## 43 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 45 of the consolidated financial statements.

## 44 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2013 amounted to KD 622,422 thousand (2012: KD 635,086 thousand).

Fees and commission income include fees of KD 1,448 thousand (2012: KD 1,488 thousand) arising from trust and fiduciary activities.

## 45 FAIR VALUES

The Group 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.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

| | | | | *KD 000's* |
|---|---|---|---|---|
| **Financial assets measured at fair value:** | *(Level 1)* | *(Level 2)* | *(Level 3)* | *Total* |
| *Financial assets available for sale* | | | | |
| Quoted equity investments | 56,066 | - | - | 56,066 |
| Unquoted equity investments | - | 6,212 | 98,454 | 104,666 |
| Managed portfolios | 108,906 | 2,063 | 2,580 | 113,549 |
| Mutual funds | 30,686 | 3,593 | - | 34,279 |
| Sukook | 462,316 | 82,850 | 45,285 | 590,451 |
| *Derivative financial assets (Note 32):* | | | | |
| Forward contracts | 13,622 | - | - | 13,622 |
| Profit rate swaps | - | 1,295 | - | 1,295 |
| Currency swaps | 713 | - | - | 713 |
| | **672,309** | **96,013** | **146,319** | **914,641** |

**45 FAIR VALUES (continued)**

| | | | | *KD 000's* |
|---|---|---|---|---|
| **Liabilities measured at fair value:** | *(Level 1)* | *(Level 2)* | *(Level 3)* | *Total* |
| *Derivative financial liabilities:* | | | | |
| Forward contracts | 4,320 | - | - | 4,320 |
| Profit rate swaps | - | 13 | - | 13 |
| Currency swaps | 3,520 | 164 | - | 3,684 |
| *Inventories:* | | | | |
| Embedded precious metals | 77 | - | - | 77 |
| | **7,917** | **177** | **-** | **8,094** |

Financial assets available for sale classified as level 2 are valued using observable market inputs. For unquoted equity investments, a valuation technique that uses prices and other relevant information generated by the market transactions involving identical similar/assets, liabilities or a group of assets and liabilities is used to determine value. For managed portfolio and mutual funds, fair value is used, where it is determined through the valuation of underlying assets using the latest market transaction. Sukook are valued using the latest market price. Instruments disclosed in Note 32 are valued by discounting all future expected cash-flows using directly observable and quoted Interest Rate curves and Spot/Forward FX rates from recognized market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

**Description of significant unobservable inputs to valuation:**

| | **Valuation technique** | **Significant unobservable inputs** | **Range (weighted average)** | **Sensitivity of the input to fair value** |
|---|---|---|---|---|
| Unquoted equity investments | DCF method | Discount for lack of marketability | (9%-11%) 10% | The Group adjusted the price earning ratio by increasing and decreasing the price earning ratio by 10 percent, which is considered by the Group to be within a range of reasonably possible alternatives based on the price earnings ratios of companies with similar industry and risk profiles. An increase (decrease) in the discount rate by 1% would result in an increase (decrease) in fair value by KD 485 thousands. |
| | | Long term growth rate for cash flows for subsequent years | (12%-15.5%) 13.75% | An increase (decrease) by 1% in the growth rate would result in increase (decrease) in fair value by KD 447 thousands. |
| Sukuk | DCF method | Effective profit rate | 6.273%-7.5% (6.9%) | An increase (decrease) by 1% in the effective profit rate would result in an increase (decrease) in fair value by KD 2,460 thousands. |

**45 FAIR VALUES (continued)**

**Description of significant unobservable inputs to valuation (continued)**

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments. In case of financial assets available for sale, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value, other than for debt instruments would only impact equity (through OCI) and, would not have an effect on profit or loss.

**Reconciliation of fair value measurement of AFS assets in unquoted equity shares:**

| | *KD 000's* |
|---|---|
| **As at 1 January 2013** | **139,056** |
| Re-measurement recognised in OCI | **10,350** |
| Sales | **(3,087)** |
| **As at 31 December 2013** | **146,319** |