KUWAIT FINANCE HOUSE K.S.C. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the related consolidated income statements, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the consolidated Financial Statements
The Bank's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards adopted for use by the State of Kuwait. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank's management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, and by the Bank's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of Capital Adequacy Regulations issued by the Central Bank of Kuwait as stipulated in CBK Circular number 2/RBA/44/2009 dated 15 June 2009, Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its financial position.

We further report that, during the course of our audit, we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2009.

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

JASSIM AHMAD AL-FAHAD
LICENCE NO. 53 A
DELOITTE
AL-FAHAD & CO.

11 January 2010
Kuwait

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Note	*2009* *KD 000's*	*2008* *KD 000's*
INCOME			
Financing income		**528,411**	561,271
Investment income	3	**111,613**	209,897
Fee and commission income		**63,406**	70,140
Net (loss) gain of foreign currencies		**(2,250)**	13,547
Other income		**65,523**	29,998
		766,703	884,853
EXPENSES			
Staff costs		**111,893**	96,254
General and administrative expenses		**86,757**	70,873
Finance costs		**54,543**	81,194
Depreciation		**40,031**	28,547
Impairment	4	**203,885**	210,940
		497,109	487,808
PROFIT BEFORE DISTRIBUTION TO DEPOSITORS		**269,594**	397,045
Distribution to depositors		**192,584**	216,800
PROFIT AFTER DISTRIBUTION		**77,010**	180,245
Contribution to Kuwait Foundation for the Advancement of Sciences		**1,239**	1,626
National Labor Support tax		**3,394**	2,573
Zakat (based on Zakat Law No. 46/2006)		**397**	1,234
Directors' fees	19	**160**	160
PROFIT FOR THE YEAR		**71,820**	174,652
Attributable to:			
Equityholders of the Bank		**118,741**	156,960
Non-controlling interests		**(46,921)**	17,692
		71,820	174,652
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK	5	**52.0 fils**	68.1 fils

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	*2009* *KD 000's*	*2008* *KD 000's*
Profit before distribution to depositors		**269,594**	397,045
Other comprehensive (loss) income			
Change in fair value of available for sale investments	15	**(88,644)**	(48,318)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	15	**(2,444)**	-
Loss (gain) realised during the year	15	**672**	(59,253)
Impairment losses transferred to the consolidated income statement	15	**49,210**	33,000
Share of other comprehensive loss of associates	15	**(3,785)**	(878)
Exchange differences on translation of foreign operations	16	**15,079**	(9,520)
Other comprehensive loss for the year included directly in fair value reserve and foreign exchange translation reserve		**(29,912)**	(84,969)
Total comprehensive income before estimated distribution to depositors		**239,682**	312,076

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	*2009* *KD 000's*	*2008* *KD 000's*
ASSETS			
Cash and balances with banks and financial institutions	6	**444,943**	368,062
Short-term international murabaha		**1,257,573**	1,312,153
Receivables	7	**5,090,398**	4,779,788
Trading properties		**126,386**	57,590
Leased assets	8	**1,288,066**	1,181,825
Investments	9	**1,042,026**	1,038,602
Investments in associates	10	**410,838**	449,496
Investment properties	11	**506,464**	279,574
Other assets		**522,394**	485,713
Property and equipment	12	**601,606**	591,339
TOTAL ASSETS		**11,290,694**	10,544,142
LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY			
LIABILITIES			
Due to banks and financial institutions	13	**1,460,925**	1,595,452
Depositors' accounts	14	**7,261,827**	6,611,556
Other liabilities		**563,451**	394,033
TOTAL LIABILITIES		**9,286,203**	8,601,041
DEFERRED REVENUE		**464,602**	344,426
FAIR VALUE RESERVE	15	**(33,597)**	11,394
FOREIGN EXCHANGE TRANSLATION RESERVE	16	**7,531**	(7,548)
EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK			
Share capital	17	**230,542**	205,841
Share premium	18	**464,766**	464,766
Proposed issue of bonus shares	19	**18,443**	24,701
Treasury shares	17	**(36,662)**	(7,651)
Reserves	18	**507,871**	470,502
		1,184,960	1,158,159
Proposed cash dividend	19	**56,857**	82,124
TOTAL EQUITY ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE BANK		**1,241,817**	1,240,283
Non-controlling interests		**324,138**	354,546
TOTAL EQUITY		**1,565,955**	1,594,829
TOTAL LIABILITIES, DEFERRED REVENUE, FAIR VALUE RESERVE, FOREIGN EXCHANGE TRANSLATION RESERVE AND TOTAL EQUITY		**11,290,694**	10,544,142

BADER ABDULMOHSEN AL-MUKHAIZEEM
(CHAIRMAN AND MANAGING DIRECTOR)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

Kuwait Finance House K.S.C. and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to equityholders of the Bank													*Non-controlling interests KD 000's*	*Total equity KD 000's*
					Reserves										
	Share capital KD 000's	*Share premium KD 000's*	*Proposed issue of bonus shares KD 000's*	*Treasury shares KD 000's*	*Statutory reserve KD 000's*	*Voluntary reserve KD 000's*	*Employee share options reserve KD 000's*	*Treasury shares reserve KD 000's*	*Sub total KD 000's*	*Profit for the year KD 000's*	*Sub total KD 000's*	*Proposed cash dividend KD 000's*	*Sub total KD 000's*		
At 31 December 2007	171,534	464,735	34,307	-	214,589	208,093	4,237	1,006	427,925	-	1,098,501	111,498	1,209,999	196,095	1,406,094
Issue of bonus shares	34,307	-	(34,307)	-	-	-	-	-	-	-	-	-	-	-	-
Cash received on cancellation of share options	-	31	-	-	-	-	-	-	-	-	31	-	31	-	31
Zakat	-	-	-	-	-	(7,558)	-	-	(7,558)	-	(7,558)	-	(7,558)	-	(7,558)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(111,498)	(111,498)	-	(111,498)
Profit for the year	-	-	-	-	-	-	-	-	-	156,960	156,960	-	156,960	17,692	174,652
Distribution of profit:															
Proposed issue of bonus shares	-	-	24,701	-	-	-	-	-	-	(24,701)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(82,124)	(82,124)	82,124	-	-	-
Transfer to statutory reserve	-	-	-	-	16,255	-	-	-	16,255	(16,255)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	33,880	-	-	33,880	(33,880)	-	-	-	-	-
Net movement in treasury shares	-	-	-	(7,651)	-	-	-	-	-	-	(7,651)	-	(7,651)	-	(7,651)
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	140,759	140,759
At 31 December 2008	205,841	464,766	24,701	(7,651)	230,844	234,415	4,237	1,006	470,502	-	1,158,159	82,124	1,240,283	354,546	1,594,829
Issue of bonus shares	24,701	-	(24,701)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat	-	-	-	-	-	(9,464)	-	-	(9,464)	-	(9,464)	-	(9,464)	-	(9,464)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(82,124)	(82,124)	-	(82,124)
Profit for the year	-	-	-	-	-	-	-	-	-	118,741	118,741	-	118,741	(46,921)	71,820
Distribution of profit:															
Proposed issue of bonus shares	-	-	18,443	-	-	-	-	-	-	(18,443)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(56,857)	(56,857)	56,857	-	-	-
Transfer to statutory reserve	-	-	-	-	12,393	-	-	-	12,393	(12,393)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	31,048	-	-	31,048	(31,048)	-	-	-	-	-
Net movement in treasury shares	-	-	-	(29,011)	-	-	-	-	-	-	(29,011)	-	(29,011)	-	(29,011)
Profit on sale of treasury shares	-	-	-	-	-	-	-	3,392	3,392	-	3,392	-	3,392	-	3,392
Net change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	16,513	16,513
At 31 December 2009	**230,542**	**464,766**	**18,443**	**(36,662)**	**243,237**	**255,999**	**4,237**	**4,398**	**507,871**	**-**	**1,184,960**	**56,857**	**1,241,817**	**324,138**	**1,565,955**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Note	*2009 KD 000's*	*2008 KD 000's*
OPERATING ACTIVITIES			
Profit for the year		**71,820**	174,652
Adjustment for:			
Depreciation		**40,031**	28,547
Impairment		**203,885**	210,940
Dividend income		**(18,260)**	(19,910)
Gain on part sale of associates and subsidiaries		**(34,821)**	(16,466)
Gain on sale of investments		**(14,623)**	(72,284)
Share of results of associates		**28,724**	(42,991)
Other investment income		**(24,263)**	(2,217)
		252,493	260,271
Changes in operating assets and liabilities			
(Increase) decrease in operating assets:			
Exchange of deposits		**12,857**	(6,633)
Receivables		**(442,723)**	(513,954)
Trading properties		**(7,451)**	68,823
Leased assets		**(113,123)**	(260,055)
Other assets		**(61,442)**	(246,348)
Increase (decrease) in operating liabilities:			
Due to banks and financial institutions		**(134,527)**	409,062
Depositors' accounts		**650,271**	1,250,401
Other liabilities		**183,487**	154,104
Net cash from operating activities		**339,842**	1,115,671
INVESTING ACTIVITIES			
Purchase of investments, net		**(70,634)**	(191,339)
Purchase of investment properties, net		**(56,614)**	(31,104)
Purchase of property and equipment, net		**(221,820)**	(211,039)
Purchase of investments in associates, net		**(16,055)**	(68,922)
Dividend income received		**20,996**	26,789
Net cash used in investing activities		**(344,127)**	(475,615)
FINANCING ACTIVITIES			
Cash dividends paid		**(82,124)**	(111,498)
Cash received on cancellation of share options		**-**	31
Payment of Zakat		**(9,464)**	(7,558)
Net movement in treasury shares		**(25,619)**	(7,651)
Net cash used in financing activities		**(117,207)**	(126,676)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(121,492)**	513,380
Cash and cash equivalents at 1 January		**1,368,185**	854,805
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**1,246,693**	1,368,185

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

1 ACTIVITIES

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Bank's Board of Directors on 11 January 2010 and are subject to approval by the Central Bank of Kuwait. The general assembly of the equityholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 20. 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 48 local branches (2008: 46) and employed 2,109 employees as of 31 December 2009 (2008: 2,032) of which 1,287 (2008: 1,167) are Kuwaiti nationals representing 61% (2008: 57%) of the Bank's total work force.

2 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been presented in Kuwaiti Dinars.

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

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

IAS 1 Presentation of Financial Statements
The revised standard requires an entity to present all owner changes in equity and all non-owner changes (i.e. change in fair value reserve and foreign exchange translation reserve) to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The Bank has elected to present consolidated comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of consolidated comprehensive income has been disclosed in the notes to the consolidated financial statements.

IFRS 8 Operating Segments
IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 24, including the related revised comparative information.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

IAS 40 Investment Properties (revised):
The improvements to IFRS project revised the scope of IAS 40 'Investment properties' such that property under construction or development for future use as an investment property is classified as investment property. Since the Group follows the 'cost model', property under construction or development would be carried at cost less impairment, if any, at each reporting date.

Improvements to IFRSs
In May 2008 and April 2009 the IASB has issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The Bank has decided not to early adopt the amendments and does not expect that their application to have significant effect.

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

Revised IFRS 3 – Business Combinations and consequential amendments to IAS 27 – Consolidated and Separate Financial Statements (applicable for business combinations for which the acquisition date is on or after the beginning of the reporting period be on or after 1 July 2009).

The main change to the standard that affects the Group's current policies is that acquisition related costs are expensed in the consolidated income statement in the years in which the costs are incurred and the services received, except for the cost of issue of equity (recognized directly in equity). Currently the Group recognizes acquisition costs as part of the purchase consideration. Also changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity and will have no impact on goodwill nor will it give rise to a gain or loss in the consolidated income statement.

IFRS 9 Financial Instruments - (Effective from 1 January 2013)
On 13 November 2009, the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. IASB intends that IFRS 9 will ultimately replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, IASB divided its project to replace IAS 39 into three main phases. As the IASB completes each phase, as well as its separate project on the derecognition of financial instruments, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that replace the requirements in IAS 39. IASB aims to replace IAS 39 in its entirety by the end of 2010. The Group has not early adopted this standard for year ended 31 December 2009.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2009 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 20. All significant intra-group balances, transactions and unrealized profits are eliminated upon consolidation.

Since the subsidiaries' financial statements used in the consolidation are drawn up to different reporting dates, 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. Hence, 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 Group accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or upto the date of disposal, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated financial position, separately from the equityholders of the Bank. Acquisition of non-controlling interests are accounted for using the parent company extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognized directly in the consolidated income statement in the year of acquisition.

Revenue recognition

i) Income from murabaha, istisna'a and wakala is recognized on a weighted time apportionment basis and is included under financing income.
ii) Income from leased assets is recognized on a pattern reflecting a constant periodic return on the net investment outstanding and is included under financing income.
iii) Operating lease income is recognized on a straight line basis in accordance with the lease agreement.
iv) Rental income from investment properties is recognized on an accruals basis.
v) Dividend income is recognized when the right to receive payment is established.
vi) Fee and commission income is recognized at the time the related services are provided.

Cash and cash equivalents

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

Short-term international murabaha

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Group as a lessee

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

Group as a lessor

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Investments in associates
An associate is an entity over which the Group exerts significant influence. Investments in associates are accounted for under the equity method of accounting. Where an associate is acquired and held exclusively for resale, it is accounted for as a non-current asset held for resale under IFRS 5.

Under the equity method, the investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's equity. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The Group recognizes in the consolidated income statement its share of the total recognized profit or loss of the associate from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes in the associate's equity. The Group's share of those changes is recognized directly in equity, fair value reserve or foreign exchange translation reserve as appropriate.

Unrealized gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognized in prior years no longer exist.

The associate's financial statements are prepared either to the Bank's reporting date or to a date not earlier than three months of the Bank's reporting date using consistent accounting policies. Where practicable, adjustments are made for the effects of significant transactions or other events that occur between the reporting date of the associates and the Bank's reporting date.

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 provisions for impairment.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)
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 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 20-25 years

Properties under construction
Properties under construction 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.

The carrying values of properties under development are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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 income statement 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)
- Motor vehicles 3 years
- Furniture, fixtures and equipment 3-5 years

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

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

The carrying values of properties under development are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

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

Available for sale financial assets

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

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

In the case of sukook investments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement. 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 income statement, the impairment loss is reversed through the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Amounts recognised as other comprehensive income are transferred to the consolidated income statement 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 income statement. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 from dealing in foreign currencies in the consolidated income statement.

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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 the owner occupation.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (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 9). As a result, these investments are carried at cost less impairment.

3 INVESTMENT INCOME

	2009	*2008*
	KD 000's	*KD 000's*
Gain on sale of trading properties	**29,370**	42,368
Rental income	**19,000**	13,661
Dividend income	**18,260**	19,910
(Loss) gain on part sale of associates	**(72)**	3,183
Gain on part sale of subsidiaries	**34,893**	13,283
Gain on sale of investments	**14,623**	72,284
Share of (loss) results of associates (Note 10)	**(28,724)**	42,991
Other investment income	**24,263**	2,217
	111,613	209,897

4 IMPAIRMENT

	2009	*2008*
	KD 000's	*KD 000's*
Provision for impairment of receivables:		
International murabahas	**33,955**	6,181
Local murabahas and wakala	**58,040**	124,615
Istisna'a and other receivables	**3,644**	22,645
	95,639	153,441
Impairment of leased assets	**6,882**	8,886
Impairment of investments	**53,130**	48,416
Impairment of associates (Note 10)	**14,014**	-
(Reversal of) impairment of investment properties	**(172)**	(2,537)
Impairment of property and equipment	**9,630**	-
Impairment of other assets	**24,762**	2,734
	203,885	210,940

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

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

	2009 ***KD 000's***	*2008* *KD 000's*
Profit for the year attributable to the equityholders of the Bank	**118,741**	156,960
Weighted average number of shares outstanding during the year (thousands)	**2,283,639**	2,304,510
Basic and diluted earnings per share	**52.0 fils**	68.1 fils

The comparative basic and diluted earnings per share have been restated for bonus shares issued on 10 March 2009 (see note 17).

6 CASH AND CASH EQUIVALENTS

	2009 ***KD 000's***	*2008* *KD 000's*
Cash	**48,224**	47,836
Balances with Central Banks	**215,184**	146,289
Balances with banks and financial institutions - current accounts	**180,071**	162,190
Balances with banks and financial institutions - exchange of deposits	**1,464**	11,747
Cash and balances with banks and financial institutions	**444,943**	368,062
Short-term international murabaha – maturing within 3 months of contract date	**584,688**	932,731
Tawarruq balances with Central Bank of Kuwait (included within short-term international murabaha)	**217,062**	80,249
Exchange of deposits – maturing after 3 months of contract date	**-**	(12,857)
Cash and cash equivalents	**1,246,693**	1,368,185

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

	2009 ***KD 000's***	*2008* *KD 000's*
Due from banks and financial institutions	**161,396**	132,330
Due to banks and financial institutions	**(161,126)**	(130,733)
	270	1,597

6 CASH AND CASH EQUIVALENTS (continued)

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

	2009 *KD 000's*	*2008* *KD 000's*
In assets:		
Cash and balances with banks and financial institutions – exchange of deposits	**1,464**	11,747
In liabilities:		
Due to banks and financial institutions – exchange of deposits	**(1,194)**	(10,150)
	270	1,597

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

7 RECEIVABLES

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

	2009 *KD 000's*	*2008* *KD 000's*
International murabahas	**1,221,442**	725,312
Local murabahas and wakala	**4,008,053**	3,570,096
Istisna'a and other receivables	**229,031**	783,487
	5,458,526	5,078,895
Less: provision for impairment	**(368,128)**	(299,107)
	5,090,398	4,779,788

The distribution of receivables is as follows:

	2009 *KD 000's*	*2008* *KD 000's*
Industry sector		
Trading and manufacturing	**1,014,802**	1,409,442
Banks and financial institutions	**1,888,090**	2,176,638
Construction and real estate	**1,591,305**	853,582
Other	**964,329**	639,233
	5,458,526	5,078,895
Less: provision for impairment	**(368,128)**	(299,107)
	5,090,398	4,779,788

	2009 *KD 000's*	*2008* *KD 000's*
Geographic region		
Middle East	**3,949,951**	3,899,608
Western Europe	**71,146**	7,382
Other	**1,437,429**	1,171,905
	5,458,526	5,078,895
Less: provision for impairment	**(368,128)**	(299,107)
	5,090,398	4,779,788

7 RECEIVABLES (continued)

Provision for impairment of receivables from customers for finance facilities are as follows:

	Specific		*General*		*Total*	
	2009	*2008*	***2009***	*2008*	***2009***	*2008*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Balance at beginning of year	**164,098**	77,971	**135,009**	73,384	**299,107**	151,355
Provided during the year	**59,122**	89,745	**36,517**	63,696	**95,639**	153,441
Amounts written off	**(19,915)**	(3,618)	**(6,703)**	(2,071)	**(26,618)**	(5,689)
Balance at end of year	**203,305**	164,098	**164,823**	135,009	**368,128**	299,107
International murabahas	**38,259**	3,540	**21,920**	6,238	**60,179**	9,778
Local murabahas and wakala	**143,297**	152,214	**138,922**	109,098	**282,219**	261,312
Istisna'a and other receivables	**21,749**	8,344	**3,981**	19,673	**25,730**	28,017
	203,305	164,098	**164,823**	135,009	**368,128**	299,107

At 31 December 2009, as per CBK regulations, the Bank's non-performing finance facilities amounted to KD 642,072 thousand (2008: KD 642,168 thousand) and are split between facilities granted pre-invasion and post liberation as follows:

	Pre-invasion	*Post liberation*	*Total*
	KD 000's	*KD 000's*	*KD 000's*
2009			
Finance facilities	**6,275**	**635,797**	**642,072**
Provision for impairment	**6,275**	**212,644**	**218,919**

	Pre-invasion	*Post liberation*	*Total*
	KD 000's	*KD 000's*	*KD 000's*
2008			
Finance facilities	6,309	635,859	642,168
Provision for impairment	6,309	158,428	164,737

The provision released for the year on non-cash facilities is KD 16 thousand (2008: KD 157 thousand). The available provision on non-cash facilities of KD 6,543 thousand (2008: KD 6,527 thousand) is included under other liabilities.

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

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

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

8 LEASED ASSETS

The net investment in leased assets comprises the following:

	2009 *KD 000's*	*2008* *KD 000's*
Gross investment	**1,350,772**	1,248,439
Less: unearned revenue	**(28,710)**	(38,940)
provision for impairment	**(33,996)**	(27,674)
	1,288,066	1,181,825

Impairment on leased assets is as follows:

	Specific		*General*		*Total*	
	2009 ***KD 000's***	*2008* *KD 000's*	***2009*** ***KD 000's***	*2008* *KD 000's*	***2009*** ***KD 000's***	*2008* *KD 000's*
Balance at beginning of year	**9,625**	4,784	**18,049**	14,004	**27,674**	18,788
Provided during the year	**6,162**	4,841	**720**	4,045	**6,882**	8,886
Write off	**(554)**	-	**(6)**	-	**(560)**	-
Balance at end of year	**15,233**	9,625	**18,763**	18,049	**33,996**	27,674

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

	2009 *KD 000's*	*2008* *KD 000's*
Within one year	**771,155**	790,674
One to five year	**324,389**	369,436
After five years	**255,228**	88,329
	1,350,772	1,248,439

The unguaranteed residual value of the leased assets at 31 December 2009 is estimated at KD 57,588 thousand (2008: KD 63,099 thousand).

9 INVESTMENTS

	2009 *KD 000's*	*2008* *KD 000's*
Investments comprise:		
Quoted equity investments	**79,727**	82,966
Unquoted equity investments	**301,133**	328,091
Managed portfolios (mainly comprising quoted equity investments)	**230,402**	300,184
Mutual funds (unquoted)	**189,512**	114,092
Sukook	**241,252**	213,269
	1,042,026	1,038,602
Investments carried at fair value	**739,088**	709,521
Investments carried at cost less impairment	**302,938**	329,081
	1,042,026	1,038,602

9 INVESTMENTS (continued)

Included in managed portfolios is an amount of KD 28,372 thousand (2008: KD 27,952 thousand) which represents the Group's investment in 25,723 thousand (2008: 17,469 thousand) of the Bank's shares on behalf of depositors, equivalent to 1.12% of the total issued share capital at 31 December 2009 (2008: 0.85%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

Unquoted equity shares
The Group holds non-controlling interests (between 5 to 9%) in entities where it has entered into research collaboration. The fair value of the unquoted ordinary shares has been estimated using a discounted cash flow model. The valuation requires management to make certain assumptions about the model inputs, including credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

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

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

31 December 2009	***Level 1*** ***KD 000's***	***Level 2*** ***KD 000's***	***Level 3*** ***KD 000's***	***Total*** ***KD 000's***
Quoted equity investments	79,727	-	-	79,727
Unquoted equity investments	-	-	11,949	11,949
Managed portfolios (mainly comprising quoted equity investments)	216,658	-	-	216,658
Mutual funds	-	-	189,512	189,512
Sukook	241,242	-	-	241,242
	537,627	**-**	**201,461**	**739,088**

Available for sale investment
Available for sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

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

10 INVESTMENTS IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2009	*2008*			
Direct investments in associates:					
First Takaful Insurance Company K.S.C. (Closed)	27	27	Kuwait	Islamic Takaful insurance	30 September 2009
Gulf Investment House K.S.C. (Closed)	20	20	Kuwait	Islamic investments	30 September 2009
Liquidity Management Centre Company B.S.C. (Closed)	25	25	Bahrain	Islamic banking and financial services	30 September 2009
National Bank of Sharjah PJSC	20	20	United Arab Emirates	Islamic banking services	30 September 2009
First Investment Company K.S.C. (Closed)	9	9	Kuwait	Islamic investments	30 September 2009
Indirect investments in associates held through consolidated subsidiaries:					
A'ayan Leasing & Investment Company K.S.C. (Closed)	16	16	Kuwait	Leasing and Islamic investment	30 September 2009
Munsha'at Real Estate Projects Co. K.S.C. (Closed)	30	30	Kuwait	Real estate projects management	30 September 2009
Sokouk Real Estate Development Company K.S.C. (Closed)	49	49	Kuwait	Real estate development	30 September 2009

Carrying amount of investment in associates:	***2009 KD 000's***	*2008 KD 000's*
At 1 January	**449,496**	341,279
Additions	**18,637**	138,263
Disposals	**(2,654)**	(20,885)
Reclassification to investments available for sale on part sale of associates	**-**	(16,795)
Reclassification to investment in subsidiary on acquisition of controlling stake	**(22,455)**	(18,237)
Reclassification to investments in associates from investments available for sale	**9,100**	-
Share of (loss) results of associates (Note 3)	**(28,724)**	42,991
Dividends received	**(2,736)**	(6,879)
Impairment in value (Note 4)	**(14,014)**	-
Share of changes in associates' fair values reserve (Note 15)	**(3,785)**	(878)
Foreign exchange translation adjustment (Note 16)	**7,973**	(9,363)
At 31 December	**410,838**	449,496

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

10 INVESTMENTS IN ASSOCIATES (continued)

	2009 *KD 000's*	*2008* *KD 000's*
Share of associates' assets and liabilities:		
Assets	**832,887**	840,416
Liabilities	**(481,608)**	(442,734)
Net assets	**351,279**	397,682

	2009 *KD 000's*	*2008* *KD 000's*
Share of associates' revenue and results:		
Revenue	**97,188**	117,734
Results	**(28,724)**	42,991
Capital Commitments	**26,705**	28,196

Investments in associates with a carrying amount of KD 215,405 thousand (2008: KD 199,087 thousand) have a market value of KD 83,507 thousand at 31 December 2009 (2008: KD 154,037 thousand) based on published quotes. The remaining associates with a carrying value of KD 195,433 thousand (2008: KD 250,408 thousand) are unquoted companies and reliable fair value information is not readily available. The carrying amount of investments in associates includes goodwill of KD 59,559 thousand (2008: KD 51,814 thousand).

11 INVESTMENT PROPERTIES

	2009 *KD 000's*	*2008* *KD 000's*
At 1 January	**279,574**	247,300
Arising on consolidation	**17,202**	-
Purchases	**98,656**	44,261
Transfer from property and equipment	**155,371**	-
Disposals	**(42,043)**	(12,900)
Depreciation charge for the year	**(2,468)**	(1,624)
Impairment losses released	**172**	2,537
At 31 December	**506,464**	279,574

	2009 *KD 000's*	*2008* *KD 000's*
Developed properties	**320,086**	281,560
Properties under construction	**188,192**	-
	508,278	281,560
Less: impairment in value	**(1,814)**	(1,986)
	506,464	279,574

Investment properties with carrying value of KD 38,464 thousand (2008: KD 37,932 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 37,287 thousand (2008: KD 34,939 thousand).

The fair value of developed investment properties at the financial position date is KD 328,440 thousand (2008: KD 295,586 thousand).

12 PROPERTY AND EQUIPMENT

	Land *KD 000's*	*Buildings* *KD 000's*	*Aircraft and engines* *KD 000's*	*Furniture, fixtures and equipment* *KD 000's*	*Motor vehicles* *KD 000's*	*Properties under development* *KD 000's*	*Total* *KD 000's*
Cost							
At 1 January 2009	12,949	76,115	285,666	79,741	27,458	236,550	718,479
Arising on consolidation	9,926	5,844	13,187	15,057	38,336	10,125	92,475
Additions	1,133	2,257	189,218	41,795	12,865	24,452	271,720
Disposals	(1,218)	(9,311)	-	(4,365)	(21,467)	(24,419)	(60,780)
Transfer to investment properties and trading properties	-	-	-	-	-	(216,716)	(216,716)
At 31 December 2009	**22,790**	**74,905**	**488,071**	**132,228**	**57,192**	**29,992**	**805,178**
Depreciation							
At 1 January 2008	-	35,339	36,732	48,123	6,946	-	127,140
Arising on consolidation	-	1,195	4,087	14,699	20,138	-	40,119
Depreciation charge for the year	-	2,267	15,599	14,674	5,023	-	37,563
Relating to disposals	-	(1,873)	-	(718)	(8,289)	-	(10,880)
Impairment loss charged for the year	-	-	9,630	-	-	-	9,630
At 31 December 2009	-	**36,928**	**66,048**	**76,778**	**23,818**	**-**	**203,572**
Net carrying amount							
At 31 December 2009	**22,790**	**37,977**	**422,023**	**55,450**	**33,374**	**29,992**	**601,606**
At 31 December 2008	12,949	40,776	248,934	31,618	20,512	236,550	591,339

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

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

One of the subsidiaries holds aircraft fleet with carrying value of KD 258,419 thousand (2008: KD 145,865 thousand) acquired under finance leases. The aircraft are secured against the finance leases with the legal title of the aircraft being retained by the lender (Note 13). The residual value of the aircraft is estimated at approximately 30% (in aggregate) of the purchase cost of the aircraft fleet.

The gross carrying value of fully depreciated property and equipment still in use at the financial position date is KD 16,196 thousand (2008: KD 14,345 thousand).

12 PROPERTY AND EQUIPMENT (continued)

The future minimum lease rent receivable on the operating lease of motor vehicles, aircraft and engines is KD 166,882 thousand (2008: KD 117,714 thousand) and is receivable as follows:

	2009	*2008*
	KD 000's	*KD 000's*
Income receivable within one year	**36,881**	27,686
Income receivable within one year to five years	**99,854**	69,131
Income receivable after five years	**30,147**	20,897
	166,882	117,714

13 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2009	*2008*
	KD 000's	*KD 000's*
Current accounts	**1,938**	18,534
Murabaha payable	**1,261,332**	1,455,198
Obligations under finance leases (Note 12)	**197,655**	121,720
	1,460,925	1,595,452

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

Property and equipment include 23 aircraft acquired by a subsidiary under finance leases denominated in US Dollars: 9 aircrafts with finance lease obligations maturing within 5 years and 14 aircrafts with lease obligations maturing after 5 years. The obligations under finance leases are secured by the aircraft (Note 12). The installments payable within one to five years are KD 134,843 thousand and installments payable after five years are KD 62,812 thousand.

14 DEPOSITORS' ACCOUNTS

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

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

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

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

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

14 DEPOSITORS' ACCOUNTS (continued)

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

	2009	*2008*
	% per annum	*% per annum*
Investment deposits - ("Mustamera")	**2.780**	4.300
Investment deposits - ("Sedra")	**2.162**	3.344
Investment savings accounts ("Tawfeer")	**1.853**	2.867

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

15 FAIR VALUE RESERVE

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

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

	2009	*2008*
	KD 000's	*KD 000's*
Balance at 1 January	**11,394**	86,843
Change in fair value of available for sale investments	**(88,644)**	(48,318)
Change in fair value of currency swaps and profit rate swaps, and forward foreign exchange contracts	**(2,444)**	-
Loss (gain) realised on available for sale investments during the year	**672**	(59,253)
Impairment losses transferred to the consolidated income statement	**49,210**	33,000
Share of other comprehensive loss of associates (Note 10)	**(3,785)**	(878)
Balance at 31 December	**(33,597)**	11,394

Unrealized gains (losses) on revaluation of available for sale investments recognized directly in fair value reserve include KD (1,977) thousand (2008: KD 1,803 thousand) relating to unquoted equity investments resulting from the use of valuation techniques.

16 FOREIGN EXCHANGE TRANSLATION RESERVE

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

17 SHARE CAPITAL

a) Share capital

	2009 KD 000's	2008 KD 000's
Authorised, issued and fully paid :		
2,305,418,958 (2008 : 2,058,409,784) shares of KD 0.100 each	**230,542**	205,841

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

	2009	2008
Number of shares in issue 1 January	**2,058,409,784**	1,715,341,457
Bonus issue 12% (2008: 20%)	**247,009,174**	343,068,327
Number of shares in issue 31 December	**2,305,418,958**	2,058,409,784

Treasury shares and treasury share reserve

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

	2009	2008
Number of treasury shares	**31,127,500**	5,315,000
Treasury shares as a percentage of total shares in issue	**1.35%**	0.26%
Cost of treasury shares (KD)	**36,661,861**	7,651,000
Market value of treasury shares (KD)	**34,240,250**	7,228,400

Movement in treasury shares was as follows:

	No. of shares	
	2009	2008
Balance as at 1 January	**5,315,000**	-
Purchases	**65,272,500**	5,315,000
Bonus issue	**1,502,725**	-
Sales	**(40,962,725)**	-
Balance as at 31 December	**31,127,500**	5,315,000

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

18 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 12,393 thousand equivalent to approximately 10% (2008: KD 16,255 thousand equivalent to approximately 10%), of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve.

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

18 RESERVES (continued)

25% (2008: 21%) of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve.

The share premium balance is not available for distribution.

19 PROPOSED DISTRIBUTION AND DIRECTORS' FEES

The board of directors of the Bank have proposed a cash dividend of 25% for the year ended 31 December 2009 (2008: 40%) and issuance of bonus shares of 8% (2008: 12%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equityholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

Directors' fees of KD 160 thousand (2008: KD 160 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equityholders of the Bank.

20 CONSOLIDATED SUBSIDIARIES

Details of principal operating subsidiaries are set out below:

Name	*Country of registration*	*Interest in equity %* **2009**	*2008*	*Principal activities*	*Financial statements reporting date*
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	30 November 2009
KFH Private Equity Ltd.	Cayman	100	100	Islamic investment	30 September 2009
Al Muthana Investment Company K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2009
Al-Nakheel United Real Estate Company K.S.C. (Closed)	Kuwait	100	100	Real estate development and leasing	31 October 2009
Development Enterprises Holding Company K.S.C.	Kuwait	100	100	Infrastructure and Industrial investments	30 September 2009
Baitak Real Estate Investment Company	Kingdom of Saudi Arabia	100	100	Real Estate development and investment	30 September 2009
Liquidity Management House K.S.C. (Closed)	Kuwait	100	100	Islamic finance and investments	30 September 2009
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	96	Computer maintenance, Consultancy, and Software services	30 September 2009
Kuwait Finance House B.S.C.	Bahrain	93	97	Islamic banking services	30 November 2009
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	30 September 2009
Aref Investment Group K.S.C. (Closed)	Kuwait	52	52	Islamic investments	30 September 2009
ALAFCO – Aviation Lease and Finance Company K.S.C. (Closed)	Kuwait	52	52	Aircraft leasing and financing services	30 September 2009
Al Enma'a Real Estate Company K.S.C. (Closed)	Kuwait	51	51	Real estate, investment, trading and real estate Management	31 October 2009

21 CONTINGENCIES AND COMMITMENTS

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

	2009 ***KD 000's***	*2008* *KD 000's*
Acceptances and letters of credit	**145,680**	192,152
Letter of Guarantees	**955,777**	1,036,772
	1,101,457	1,228,924
Capital commitments	**1,327,082**	1,463,323

22 CURRENCY SWAPS, PROFIT RATE SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS

In the ordinary course of business the Group enters into currency swaps and profit rate swaps and forward foreign exchange contracts to mitigate foreign currency and profit rate risk. Currency swaps are based on Wa'ad (promise) structure between two parties to buy a specified Sharia'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 and forward foreign exchange contracts are being used to hedge the foreign currency risk of the firm commitments.

At 31 December 2009, the Group held currency swaps and profit rate swaps and forward foreign exchange 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 currency swap instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of currency swap instrument's underlying asset, reference rate or index and is the basis upon which changes in the value of these instruments are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

31 December 2009

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

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

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

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

23 RELATED PARTY TRANSACTIONS

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

	Major shareholders KD 000's	*Associates KD 000's*	*Board Members and Executive Officers KD 000's*	*Other related parties KD 000's*	***Total 2009 KD 000's***	*Total 2008 KD 000's*
Related parties						
Receivables	13,963	170,190	2,145	61,290	**247,588**	143,486
Due to banks and financial Institutions	284,047	6,978	-	30,890	**321,915**	148,231
Depositors' accounts	30,941	18,884	2,825	44,037	**96,687**	61,778
Commitments and contingencies	847	4,568	-	16,044	**21,459**	9,147

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*			
	2009	*2008*	***2009***	*2008*	***2009 KD 000's***	*2008 KD 000's*
Board Members						
Finance facilities	**6**	11	**3**	16	**5,586**	73,694
Credit cards	**8**	5	**1**	-	**53**	33
Deposits	**24**	24	**52**	104	**3,958**	82,627
Collateral against financing facilities	**3**	1	**-**	4	**2,663**	176
Executive officers						
Finance facilities	**16**	20	**4**	4	**2,340**	4,906
Credit cards	**26**	11	**6**	4	**71**	29
Deposits	**27**	26	**76**	84	**5,616**	4,925
Collateral against finance facilities	**8**	8	**1**	1	**3,713**	4,852

Compensation of key management personnel is as follows:

	2009 KD 000's	*2008 KD 000's*
Short-term employee benefits	**10,534**	8,638
Termination benefits	**752**	464
	11,286	9,102

24 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

31 December 2009	*Treasury* *KD 000's*	*Investment* *KD 000's*	*Retail and corporate banking* *KD 000's*	*Other* *KD 000's*	*Total* *KD 000's*
Assets					
Cash and balances with banks and financial institutions	**444,943**	**-**	**-**	**-**	**444,943**
Short-term international murabaha	**1,257,573**	**-**	**-**	**-**	**1,257,573**
Receivables	**1,100,087**	**891,759**	**3,005,381**	**93,171**	**5,090,398**
Trading properties	**-**	**126,386**	**-**	**-**	**126,386**
Leased assets	**-**	**110,287**	**1,177,779**	**-**	**1,288,066**
Investments	**-**	**1,042,026**	**-**	**-**	**1,042,026**
Investments in associates	**-**	**410,838**	**-**	**-**	**410,838**
Investment properties	**-**	**506,464**	**-**	**-**	**506,464**
Other assets	**6,132**	**147,320**	**61,878**	**307,064**	**522,394**
Property and equipment	**544**	**18,997**	**35,640**	**546,425**	**601,606**
	2,809,279	**3,254,077**	**4,280,678**	**946,660**	**11,290,694**
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	**1,460,925**	**-**	**-**	**-**	**1,460,925**
Depositors' accounts	**-**	**-**	**7,261,827**	**-**	**7,261,827**
Other liabilities	**9,038**	**18,489**	**138,779**	**397,145**	**563,451**
Deferred revenue	**226**	**2,151**	**460,270**	**1,955**	**464,602**
Fair value reserve	**-**	**(33,597)**	**-**	**-**	**(33,597)**
Foreign exchange translation reserve	**-**	**7,531**	**-**	**-**	**7,531**
	1,470,189	**(5,426)**	**7,860,876**	**399,100**	**9,724,739**
Income	**27,370**	**70,450**	**630,093**	**38,790**	**766,703**
Impairment	**-**	**(70,282)**	**(101,003)**	**(32,600)**	**(203,885)**
Profit before distribution to depositors	**22,685**	**(3,089)**	**225,849**	**24,149**	**269,594**

24 SEGMENTAL ANALYSIS (continued)

31 December 2008	*Treasury KD 000's*	*Investment KD 000's*	*Retail and corporate banking KD 000's*	*Other KD 000's*	*Total KD 000's*
Assets					
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international murabaha	1,306,878	5,275	-	-	1,312,153
Receivables	725,311	710,186	3,284,736	59,555	4,779,788
Trading properties	-	57,590	-	-	57,590
Leased assets	-	117,888	1,063,937	-	1,181,825
Investments	-	1,038,602	-	-	1,038,602
Investments in associates	-	449,496	-	-	449,496
Investment properties	-	279,574	-	-	279,574
Other assets	15,885	309,624	63,001	97,203	485,713
Property and equipment	595	69,466	93,460	427,818	591,339
	2,416,731	3,037,701	4,505,134	584,576	10,544,142
Liabilities, deferred revenue, fair value reserve and foreign exchange translation reserve					
Due to banks and financial institutions	1,595,452	-	-	-	1,595,452
Depositors' accounts	-	-	6,611,556	-	6,611,556
Other liabilities	22,097	34,387	166,073	171,476	394,033
Deferred revenue	355	-	343,802	269	344,426
Fair value reserve	-	11,394	-	-	11,394
Foreign exchange translation reserve	-	(7,548)	-	-	(7,548)
	1,617,904	38,233	7,121,431	171,745	8,949,313
Income	19,663	220,956	623,288	20,946	884,853
Impairment	6,181	45,879	156,146	2,734	210,940
Profit before distribution to depositors	7,615	78,779	300,593	10,058	397,045

24 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

	Assets		*Liabilities*		*Contingencies and commitments under letters of credit and guarantees*	
	2009	*2008*	***2009***	*2008*	***2009***	*2008*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Geographical areas:						
The Middle East	**8,124,258**	7,772,279	**7,080,218**	7,142,849	**730,149**	270,565
North America	**231,573**	186,014	**30,938**	85,962	**595,021**	2,784
Western Europe	**368,799**	352,528	**229,752**	44,611	**466,354**	13,921
Other	**2,566,064**	2,233,321	**1,945,295**	1,327,619	**954,122**	941,654
	11,290,694	10,544,142	**9,286,203**	8,601,041	**2,745,646**	1,228,924

	Local		*International*		*Total*	
	2009	*2008*	***2009***	*2008*	***2009***	*2008*
	KD 000's	*KD 000's*	***KD 000's***	*KD 000's*	***KD 000's***	*KD 000's*
Income	**440,851**	553,675	**325,852**	331,178	**766,703**	884,853
Profit before distribution to depositors	**175,276**	235,149	**94,318**	161,896	**269,594**	397,045

25 CONCENTRATION OF ASSETS AND LIABILITIES

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

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

	2009 KD 000's	*2008 KD 000's*
Trading and manufacturing	**2,363,875**	2,970,684
Banks and financial institutions	**3,292,671**	3,248,546
Construction and real estate	**3,599,269**	2,424,951
Other	**2,034,879**	1,899,961
	11,290,694	10,544,142

See Note 24 for distribution of assets by geographical areas.

(b) The distribution of liabilities was as follows:

	Banking KD 000's	***Non-banking KD 000's***	***Total 2009 KD 000's***	*Banking KD 000's*	*Non-banking KD 000's*	*Total 2008 KD 000's*
Geographic region						
The Middle East	**6,954,192**	**126,026**	**7,080,218**	6,864,896	277,953	7,142,849
North America	**95**	**30,843**	**30,938**	5,673	80,289	85,962
Western Europe	**26,455**	**203,297**	**229,752**	17,013	27,598	44,611
Other	**1,883,285**	**62,010**	**1,945,295**	1,261,327	66,292	1,327,619
	8,864,027	**422,176**	**9,286,203**	8,148,909	452,132	8,601,041

	2009 KD 000's	*2008 KD 000's*
Industry sector		
Trading and manufacturing	**1,380,499**	1,278,497
Banks and financial institutions	**4,475,871**	4,145,157
Construction and real estate	**323,420**	313,182
Other	**3,106,413**	2,864,205
	9,286,203	8,601,041

26 FOREIGN CURRENCY EXPOSURE

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

	2009 KD 000's Equivalent Long (short)	*2008 KD 000's Equivalent Long (short)*
U.S. Dollars	**209,298**	80,365
Sterling Pounds	**12,919**	37,042
Euros	**5,534**	2,523
Gulf Cooperation Council currencies	**375,969**	37,841

Others	**50,304**	54,109

27 RISK MANAGEMENT

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

The Group has an independent process whereby risks are identified, measured and monitored. The risk management unit is responsible for this process. The head of risk management has independent access to the 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 of the Bank receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

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

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

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

b) Risk management and reporting systems

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

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

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

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

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

28 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 provisions), before the effect of mitigation through the use of master netting and collateral agreements.

	Note	***Gross maximum exposure 2009 KD 000's***	*Gross maximum exposure 2008 KD 000's*
Balances with banks and financial institutions		**396,719**	320,226
Short-term international murabaha		**1,257,573**	1,312,153
Receivables	7	**5,090,398**	4,779,788
Leased assets	8	**1,288,066**	1,181,825
Investments – Sukook	9	**241,252**	213,269
Other assets		**276,015**	381,626
Total		**8,550,023**	8,188,887
Contingent liabilities		**1,101,457**	1,228,924
Commitments		**1,327,082**	1,463,323
Total		**2,428,539**	2,692,247
Total credit risk exposure		**10,978,562**	10,881,134

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.

28 CREDIT RISK (continued)

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2009 was KD 133,279 thousands (2008: KD 145,000 thousands) before taking account of collateral or other credit enhancements and KD 133,279 thousands (2008: KD 120,212 thousands) net of such protection.

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

	Banking KD 000's	***Non-banking KD 000's***	***Total 2009 KD 000's***	*Banking KD 000's*	*Non-banking KD 000's*	*Total 2008 KD 000's*
The Middle East	**6,058,266**	**196,890**	**6,255,156**	5,677,580	233,129	5,910,709
North America	**25,272**	**13,343**	**38,615**	94,046	78,901	172,947
Western Europe	**185,062**	**3,193**	**188,255**	141,615	34,990	176,605
Other	**2,021,112**	**46,885**	**2,067,997**	1,905,821	22,805	1,928,626
	8,289,712	**260,311**	**8,550,023**	7,819,062	369,825	8,188,887

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

	Banking KD 000's	***Non-banking KD 000's***	***Total 2009 KD 000's***	*Banking KD 000's*	*Non-banking KD 000's*	*Total 2008 KD 000's*
Trading and Manufacturing	**1,000,950**	**10,461**	**1,011,411**	1,828,638	64,080	1,892,718
Banks and financial Institutions	**2,522,436**	**64,354**	**2,586,790**	2,907,408	91,680	2,999,088
Construction and real Estate	**2,567,211**	**43,387**	**2,610,598**	1,623,404	151,778	1,775,182
Other	**2,199,115**	**142,109**	**2,341,224**	1,459,612	62,287	1,521,899
	8,289,712	**260,311**	**8,550,023**	7,819,062	369,825	8,188,887

28 CREDIT RISK (continued)

Credit quality per class of financial assets

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

	Neither past due nor impaired			
	High grade 2009 KD 000's	***Standard grade 2009 KD 000's***	***Past due or impaired 2009 KD 000's***	***Total 2009 KD 000's***
Receivables:				
International murabahas	**114,548**	**930,667**	**116,048**	**1,161,263**
Local murabahas and wakala	**265,022**	**2,797,910**	**662,902**	**3,725,834**
Istisna'a and other receivables	**520**	**101,972**	**100,809**	**203,301**
	380,090	**3,830,549**	**879,759**	**5,090,398**
Leased assets	**10,941**	**1,126,885**	**150,240**	**1,288,066**
Investments – sukook	**39,654**	**201,598**	**-**	**241,252**
	430,685	**5,159,032**	**1,029,999**	**6,619,716**

	Neither past due nor impaired			
	High grade 2008 KD 000's	*Standard grade 2008 KD 000's*	*Past due or impaired 2008 KD 000's*	*Total 2008 KD 000's*
Receivables:				
International murabahas	688,821	26,713	-	715,534
Local murabahas and wakala	362,758	2,300,083	645,943	3,308,784
Istisna'a and other receivables	27,971	712,688	14,811	755,470
	1,079,550	3,039,484	660,754	4,779,788
Leased assets	806,022	291,100	84,703	1,181,825
Investments – sukook	123,884	89,385	-	213,269
	2,009,456	3,419,969	745,457	6,174,882

28 CREDIT RISK (continued)

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

	Less than 30 days 2009 KD 000's	***31 to 60 days 2009 KD 000's***	***61 to 90 days 2009 KD 000's***	***Total 2009 KD 000's***
Local murabahas	**152,915**	**123,713**	**57,151**	**333,779**
Istisna'a and other receivables	**34,177**	**33,777**	**8,900**	**76,854**
Leased assets	**62,549**	**56,520**	**22,453**	**141,522**
	249,641	**214,010**	**88,504**	**552,155**

	Less than 30 days 2008 KD 000's	*31 to 60 days 2008 KD 000's*	*61 to 90 days 2008 KD 000's*	*Total 2008 KD 000's*
Local murabahas	226,346	67,951	19,399	313,696
Istisna'a and other receivables	14,320	2,206	946	17,472
Leased assets	807	34,262	16,068	51,137
	241,473	104,419	36,413	382,305

Collateral

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

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

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The fair value of collateral that the Group holds relating to finance facilities individually determined to be past due or impaired at 31 December 2009 amounts to KD 1,919,845 thousand (2008: KD 1,877,836 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2009 was KD 1,566,041 thousand (2008: KD 1,620,170 thousand). The collateral consists of cash, securities, letters of guarantee and real estate assets.

29 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:

	2009 *%*	*2008* *%*
31 December	**22**	24
Average during the period	**21**	24
Highest	**23**	27
Lowest	**20**	20

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

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

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

29 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2008 is as follows:

	Within 3 months KD 000's	*3 to 6 months KD 000's*	*6 to 12 months KD 000's*	*After one year KD 000's*	*Total KD 000's*
Assets					
Cash and balances with banks and financial institutions	368,062	-	-	-	368,062
Short-term international murabaha	1,312,153	-	-	-	1,312,153
Receivables	1,109,623	1,003,259	810,061	1,856,845	4,779,788
Trading properties	810	53,598	-	3,182	57,590
Leased assets	242,284	186,487	220,273	532,781	1,181,825
Investments	11,925	-	-	1,026,677	1,038,602
Investment in associates	-	-	-	449,496	449,496
Investment properties	-	-	-	279,574	279,574
Other assets	134,015	199,296	10,218	142,184	485,713
Property and equipment	-	-	47,928	543,411	591,339
	3,178,872	1,442,640	1,088,480	4,834,150	10,544,142
Liabilities					
Due to banks and financial institutions	1,036,995	100,134	74,726	383,597	1,595,452
Depositors' accounts	3,002,372	153,188	35,416	3,420,580	6,611,556
Other liabilities	64,200	77,979	98,410	153,444	394,033
	4,103,567	331,301	208,552	3,957,621	8,601,041

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

	On demand KD 000's	*Less than 3 months KD 000's*	*3 to 12 months KD 000's*	*1 to 5 years KD 000's*	*Over 5 years KD 000's*	*Total KD 000's*
2009						
Contingent liabilities	728,648	34,568	87,163	186,398	64,680	**1,101,457**
Commitments	198,535	110,758	99,118	125,744	792,927	**1,327,082**
Total	**927,183**	**145,326**	**186,281**	**312,142**	**857,607**	**2,428,539**
2008						
Contingent liabilities	838,959	49,710	122,055	137,954	80,246	1,228,924
Commitments	198,632	40,608	199,233	284,025	740,825	1,463,323
Total	1,037,591	90,318	321,288	421,979	821,071	2,692,247

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

30 MARKET RISK

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

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

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

Non-trading market risk

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

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2009 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of available for sale investments).

Currency	***Change in currency rate in % 2009***	***Effect on profit 2009 KD 000's***	***Effect on fair value reserve 2009 KD 000's***	*Change in currency rate in % 2008*	*Effect on profit 2008 KD 000's*	*Effect on fair value reserve 2008 KD 000's*
USD	**0.2**	**755**	**561**	-5	(4,018)	1,818
GBP	**1**	**141**	**147**	-10	(3,704)	(172)

30 MARKET RISK (continued)

Equity price risk

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

The effect on fair value reserve (as a result of a change in the fair value of available for sale investments at 31 December 2006) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

Market indices	***Change in equity price 2009 %***	***Effect on fair value reserve 2009 KD 000's***	*Change in equity price 2008 %*	*Effect on fair value reserve 2008 KD 000's*
Kuwait Stock Exchange	**-9**	**(29,586)**	-15	(27,589)
Other GCC indices	**15**	**21,222**	-20	(1,281)

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.

31 CAPITAL MANAGEMENT

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

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

31 CAPITAL MANAGEMENT (continued)

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

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

Capital adequacy	***2009*** ***KD 000's***
Risk Weighted Assets	**9,103,591**
Capital required	**1,092,431**
Capital available	
Tier 1 capital	**1,372,935**
Tier 2 capital	**11,432**
Total capital	**1,384,367**
Tier 1 capital adequacy ratio	**15.08%**
Total capital adequacy ratio	**15.21%**

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

32 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.

33 FINANCIAL INSTRUMENTS

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

34 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2009 amounted to KD 866,792 thousand (2008: KD 1,137,988 thousand).

Fees and commission income include fees of KD 5,605 thousand (2008: KD 4,343 thousand) arising from trust and fiduciary activities.