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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2015

	Notes	**2015**	2014
			KD 000's
INCOME			
Financing income		**663,423**	645,801
Finance cost and distribution to depositors		**(270,651)**	(282,382)
Net finance income		**392,772**	363,419
Investment income	3	**171,333**	191,409
Fees and commissions income		**82,596**	89,468
Net gain from foreign currencies		**26,641**	27,874
Other income	4	**67,229**	80,110
TOTAL OPERATING INCOME		**740,571**	752,280
EXPENSES			
Staff costs		**(179,866)**	(182,171)
General and administrative expenses		**(85,665)**	(116,517)
Depreciation and amortization		**(88,554)**	(86,941)
TOTAL EXPENSES		**(354,085)**	(385,629)
Net operating income		**386,486**	366,651
Provisions and impairment	5	**(174,486)**	(178,249)
PROFIT BEFORE KFAS, NLST, ZAKAT, PROPOSED DIRECTORS' FEES, AND TAXATION RELATED TO SUBSIDIARIES		**212,000**	188,402
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(1,519)**	(1,317)
National Labour Support Tax (NLST)		**(2,688)**	(2,422)
Zakat (based on Zakat Law No. 46/2006)		**(1,296)**	(857)
Proposed directors' fees	24	**(610)**	(610)
Taxation related to subsidiaries		**(16,117)**	(23,121)
PROFIT FOR THE YEAR		**189,770**	160,075
Attributable to:			
Shareholders of the Bank		**145,841**	126,476
Non-controlling interests		**43,929**	33,599
		189,770	160,075
Basic and diluted earnings per share attributable to the shareholders of the bank	6	**31.10 fils**	26.98 fils

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	Notes	2015	2014
			KD 000's
Profit for the year		**189,770**	160,075
Other comprehensive (loss) income			
Other comprehensive (loss) income to be reclassified to consolidated statement of income in subsequent periods:			
Change in fair value of financial assets available for sale during the year		**758**	(15,894)
Change in fair value of currency swaps, profit rate swaps, and forward foreign exchange contracts for the year		**-**	36
Realised gain on financial assets available for sale for the year	3	**(2,484)**	(17,728)
Impairment losses transferred to consolidated statement of income	5	**16,553**	40,046
Share of other comprehensive income (loss) of associates and joint ventures		**647**	(339)
Exchange differences on translation of foreign operations		**(62,679)**	(10,114)
Other comprehensive loss for the year		**(47,205)**	(3,993)
Total comprehensive income		**142,565**	156,082
Attributable to:			
Shareholders of the Bank		**123,183**	133,461
Non-controlling interests		**19,382**	22,621
		142,565	156,082

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 KD 000's	2014 KD 000's
ASSETS			
Cash and balances with banks and financial institutions	7	**1,599,712**	1,604,135
Short-term murabaha	8	**3,193,930**	3,222,420
Financing receivables	9	**8,127,477**	8,118,921
Trading properties		**214,362**	179,265
Investments	10	**1,314,756**	1,369,484
Investment in associates and joint ventures	11,12	**534,856**	462,710
Investment properties	13	**580,499**	529,285
Other assets	14	**469,309**	639,455
Intangible assets and goodwill	15	**47,960**	61,793
Property and equipment	16	**264,181**	877,362
Leasehold rights	17	**179,627**	117,081
TOTAL ASSETS		**16,526,669**	17,181,911
LIABILITIES			
Due to banks and financial institutions	19	**2,923,506**	3,451,262
Depositors' accounts	20	**10,838,827**	10,881,392
Other liabilities	21	**708,847**	752,216
TOTAL LIABILITIES		**14,471,180**	15,084,870
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	23	**476,504**	433,185
Share premium		**720,333**	720,333
Proposed issue of bonus shares	24	**47,650**	43,319
Treasury shares	23	**(50,173)**	(52,497)
Reserves	22	**505,067**	537,315
		1,699,381	1,681,655
Proposed cash dividend	24	**79,755**	63,935
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**1,779,136**	1,745,590
Non-controlling interests		**276,353**	351,451
TOTAL EQUITY		**2,055,489**	2,097,041
TOTAL LIABILITIES AND EQUITY		**16,526,669**	17,181,911

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

KD 000's

	Attributable to shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 22)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
Balance at 1 January 2014 (Restated)	383,350	720,333	49,835	(56,118)	516,775	1,614,175	48,968	1,663,143	290,078	1,953,221
Profit for the year	-	-	-	-	126,476	126,476	-	126,476	33,599	160,075
Other comprehensive income (loss)	-	-	-	-	6,985	6,985	-	6,985	(10,978)	(3,993)
Total comprehensive income	-	-	-	-	133,461	133,461	-	133,461	22,621	156,082
Issue of bonus shares (Note 23,24)	49,835	-	(49,835)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(6,020)	(6,020)	-	(6,020)	-	(6,020)
Cash dividends paid	-	-	-	-	-	-	(48,968)	(48,968)	-	(48,968)
Distribution of profit: (Note 24)										
Proposed issue of bonus shares	-	-	43,319	-	(43,319)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(63,935)	(63,935)	63,935	-	-	-
Net movement in treasury shares	-	-	-	3,621	353	3,974	-	3,974	-	3,974
Participation of non-controlling interest in capital increase	-	-	-	-	-	-	-	-	18,731	18,731
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(3,430)	(3,430)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	23,451	23,451
At 31 December 2014	433,185	720,333	43,319	(52,497)	537,315	1,681,655	63,935	1,745,590	351,451	2,097,041

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2015

KD 000's

	Attributable to shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 22)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
Balance at 1 January 2015	**433,185**	**720,333**	**43,319**	**(52,497)**	**537,315**	**1,681,655**	**63,935**	**1,745,590**	**351,451**	**2,097,041**
Profit for the year	-	-	-	-	**145,841**	**145,841**	-	**145,841**	**43,929**	**189,770**
Other comprehensive loss	-	-	-	-	**(22,658)**	**(22,658)**	-	**(22,658)**	**(24,547)**	**(47,205)**
Total comprehensive income	-	-	-	-	**123,183**	**123,183**	-	**123,183**	**19,382**	**142,565**
Issue of bonus shares (Note 23,24)	**43,319**	-	**(43,319)**	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	**(6,327)**	**(6,327)**	-	**(6,327)**	-	**(6,327)**
Cash dividends paid	-	-	-	-	-	-	**(63,935)**	**(63,935)**	-	**(63,935)**
Distribution of profit: (Note 24)										
Proposed issue of bonus shares	-	-	**47,650**	-	**47,650**	-	-	-	-	-
Proposed cash dividends	-	-	-	-	**(79,755)**	**(79,755)**	**79,755**	-	-	-
Net movement in treasury shares	-	-	-	**2,324**	**6**	**2,330**	-	**2,330**	-	**2,330**
Deconsolidation of a subsidiary (Note 18)	-	-	-	-	**(7,029)**	**(7,029)**	-	**(7,029)**	**(104,515)**	**(111,544)**
Acquisition of non-controlling interests	-	-	-	-	**(14,676)**	**(14,676)**	-	**(14,676)**	**14,676**	-
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	**(6,064)**	**(6,064)**
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	**1,423**	**1,423**
At 31 December 2015	**476,504**	**720,333**	**47,650**	**(50,173)**	**505,067**	**1,699,381**	**79,755**	**1,779,136**	**276,353**	**2,055,489**

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015	2014
			KD 000's
OPERATING ACTIVITIES			
Profit for the year		**189,770**	160,075
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		**88,554**	86,941
Provision and impairment	5	**174,486**	178,249
Dividend income	3	**(6,773)**	(6,646)
Gain on sale of financial assets available for sale	3	**(2,484)**	(17,728)
Sukook income	3	**(38,457)**	(35,039)
Gain on real estate investments	3	**(74,505)**	(76,778)
Share of results of associates and joint ventures	3	**(6,070)**	(9,013)
Other investment income	3	**(15,536)**	(20,200)
		308,985	259,861
Changes in operating assets and liabilities:			
Financing receivables and short term murabaha		**69,337**	(1,259,311)
Trading properties		**(35,180)**	127,523
Other assets		**166,359**	(114,439)
Statutory deposit with Central Banks		**12,340**	(162,317)
Due to banks and financial institutions		**(177,284)**	982,736
Depositors' accounts		**21,017**	777,406
Other liabilities		**(108,101)**	(49,774)
Net cash flows from operating activities		**257,473**	561,685
INVESTING ACTIVITIES			
Proceeds from sale (purchase) of investments, net		**44,912**	(123,374)
Purchase of investment properties		**(47,846)**	(74,285)
Proceeds from sale of investment properties		**50,781**	124,550
Purchase of property and equipment		**(122,620)**	(86,580)
Proceeds from sale of property and equipment		**62,606**	37,951
Purchase of intangible assets, net		**(10,351)**	(11,452)
Purchase of leasehold rights, net		**-**	(122)
Purchase of investments in associates and joint ventures		**(19,569)**	(11,171)
Proceeds from sale of investments in associates and joint ventures		**9,476**	29,887
Deconsolidation of a subsidiary		**(63,582)**	-
Sukook income received		**38,457**	35,039
Dividend received		**13,821**	27,907
Net cash flow used in investing activities		**(43,915)**	(51,650)
FINANCING ACTIVITIES			
Cash dividends paid		**(63,935)**	(48,968)
Zakat paid		**(6,327)**	(6,020)
Net movement in treasury shares		**2,330**	3,974
Dividend paid to non-controlling interests		**(6,064)**	(3,430)
Participation of non-controlling interest in capital increase		**-**	18,731
Net cash flows used in financing activities		**(73,996)**	(35,713)
INCREASE IN CASH AND CASH EQUIVALENTS		**139,562**	474,322
Cash and cash equivalents at 1 January		**2,433,322**	1,959,000
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	**2,572,884**	2,433,322

The attached notes 1 to 36 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 11 January 2016. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 18. 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 instalment 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.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2015.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle
These improvements did not have a material impact on the Group. They include:

- *IFRS 2 Share-based Payment*
- *IFRS 3 Business Combinations*
- *IFRS 8 Operating Segments*
- *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*
- *IAS 24 Related Party Disclosures*

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

Annual improvements 2011-2013 Cycle
These improvements did not have a material impact on the Group. They include:
- *IFRS 3 Business Combinations*
- *IFRS 13 Fair Value Measurement*
- *IAS 40 Investment Property*
- *Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*
- *Amendments to IAS 27: Equity Method in Separate Financial Statements*

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The group is in the process of assessment the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The group is in the process of assessment the impact of IFRS 15 on its consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual Improvements 2012-2014 Cycle
These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 7 Financial Instruments: Disclosures
IAS 19 Employee Benefits
IAS 34 Interim Financial Reporting
Amendments to IAS 1 Disclosure Initiative
Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2015 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 18. All significant intra-group balances, transactions and unrealized gains or losses resulting from intra group transactions and dividends are eliminated in full.

The financial statements of the subsidiaries are prepared for the same reporting period as the Group or to a date not earlier than three months of the Bank reporting date using consistent accounting policies. Where practicable, adjustments are made for the effects of significant transactions or other events that occurred between the reporting date of the subsidiaries and the Bank's reporting date.

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

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

Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

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

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

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

i) Financing income is income from murabaha, istisna'a, leased assets, wakala investments and is determined by using the effective profit method. The effective profit method is a method of calculating the amortised cost of a financial asset and of allocating the financing income over the relevant period.
ii) Fee and commission income is recognised at the time the related services are provided.
iii) Rental income from investment properties is recognised on an accruals basis.
iv) Dividend income is recognised when the right to receive payment is established.
v) Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
vi) Gain from real estate investments includes gains from sale, transfer and distribution of investment properties, trading properties, and share of result of real estate joint ventures Real estate gain is recognised when the significant risks and returns have been transferred to the buyer including satisfaction of all conditions of a contract.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Financial assets available for sale (AFS)

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

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

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

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

Venture capital at fair value through statement of income

Certain investments in joint ventures held directly or indirectly through venture capital segment are not accounted for using equity method, as the Bank has elected to measure these investments at fair value through income statement in accordance with IAS 39, using the exemption of IAS 28: Investments in associates and joint ventures.

Venture capital at fair value through statement of income are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as unrealized gain (loss) in the consolidated statement of income.

Investment in associates and joint ventures

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)
The share of profit of an associate and joint venture are disclosed in (Note 11 and 12). This is the profit attributable to equity holders of the associate or joint venture, and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

The intangible assets and its expected useful life are as follows:

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

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

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

Leasehold rights

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

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

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

Precious metals inventory

Precious metals inventory primarily comprises Gold and is carried at the fair value less cost to sell.

Trade receivable

Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. This is included in other assets (Note 14).

Property and equipment

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

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

Properties under development

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

Taxes

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

In accordance with the Bank's Fatwa and Shareea'a Supervisory Board approval held on 20 December 2011, the Bank has changed Zakat based calculation from reserve method to net working capital method. Accordingly the Bank calculates Zakat at 2.577% on net working capital on completing fiscal year and is paid under the direction of the Bank's Fatwa and Shareea'a Supervisory Board, and netting the amount paid by the 1% of net profit attributed to the Zakat paid to the Ministry of Finance as per the Zakat Law. Such Zakat is charged to voluntary reserve.

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

Taxation on subsidiaries

Taxation on subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred tax

Deferred taxes are accounted only for subsidiaries operating in taxable jurisdictions. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in consolidated statement of income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to provision charged in the consolidated statement of income.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF 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 estimates of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

The following assets have specific characteristics for impairment testing:

Goodwill
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts
The Group uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts to mitigate exposure to foreign currency risk and commodity price risk in forecasted transactions and firm commitments. The Group does not enter in mudaraba instruments transitions.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Fair value measurement
The Group measures financial instruments, such as, derivatives, and non-financial assets such as precious metal inventory and financial assets available for sale, at fair value at each reporting date.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Finance cost
Finance cost is directly attributable to due to banks and financial institutions and depositors' accounts. All finance costs are expensed in the period they occur.

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

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

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

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

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

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

Fiduciary assets
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Classification of real estate
Management decides on acquisition of a developed and under development real estate property whether it should be classified as trading, investment property or property and equipment.
The Group classifies property as trading property if it is acquired principally for sale in the ordinary course of business or when it is being redeveloped for sale.
The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.
The Group classifies property as property and equipment when it is acquired for owner occupation.

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

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

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3 INVESTMENT INCOME

	KD 000's	
	2015	2014
Gain on real estate investments	**74,505**	76,778
Rental income from investment properties	**27,508**	26,005
Dividend income	**6,773**	6,646
Gain on sale of financial assets available for sale	**2,484**	17,728
Sukook income	**38,457**	35,039
Share of results of associates and joint ventures (Note 11 and Note 12)	**6,070**	9,013
Other investment income	**15,536**	20,200
	171,333	191,409

4 OTHER INCOME

	KD 000's	
	2015	2014
Income from sale of property and equipment	**8,131**	4,467
Real estate development and construction income	**5,133**	7,641
Gain on debt settlement	**4,153**	18,550
Income from maintenance, services, and consultancy	**25,915**	24,787
Rental income from operating lease	**10,741**	11,225
Other income	**13,156**	13,440
	67,229	80,110

5 PROVISIONS AND IMPAIRMENT

	KD 000's	
	2015	2014
Impairment on financing receivables (Note 9)	**167,298**	81,937
Recovery of written-off debts	**(81,213)**	(42,182)
Impairment of financial assets available for sale	**16,553**	40,046
Impairment of associates and joint ventures	**14,921**	17,800
Impairment of investment properties (Note 13)	**12,677**	38,259
Impairment of (reversal of) property and equipment (Note 16)	**14,085**	(432)
Impairment of intangible assets and goodwill (Note 15)	**12,894**	6,422
(Reversal of) impairment of non cash facilities (Note 9)	**(10,593)**	5,784
Impairment of trading properties	**6,570**	-
Impairment of other assets and other provisions	**21,294**	30,615
	174,486	178,249

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

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

	2015	*2014*
Profit for the year attributable to the shareholders of the Bank (KD thousands)	**145,841**	126,476
Weighted average number of shares outstanding during the year (thousand shares)	**4,689,866**	4,687,483
Basic and diluted earnings per share attributable to the shareholders of the Bank (fils)	**31.10**	26.98

The Bank has no dilutive potential shares.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 23).

7 CASH AND CASH EQUIVALENTS

	KD 000's	
	2015	*2014*
Cash	**246,715**	176,362
Balances with Central Banks	**773,592**	857,021
Balances with banks and financial institutions – current accounts	**579,405**	570,752
Cash and balances with banks and financial institutions	**1,599,712**	1,604,135
Short-term murabaha – maturing within 3 months of contract date	**1,487,068**	1,000,390
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	**95,024**	450,057
Less: Statutory deposits with Central Banks	**(608,920)**	(621,260)
Cash and cash equivalents	**2,572,884**	2,433,322

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

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

8 SHORT-TERM MURABAHA

	KD 000's	
	2015	*2014*
Short-term murabaha with Banks	**1,680,902**	1,420,359
Short-term murabaha with Central Banks	**1,513,028**	1,802,061
	3,193,930	3,222,420

9 FINANCING RECEIVABLES

Financing receivables principally comprise murabaha, wakala, leased assets, and istisna'a balances are stated net of impairment as follows:

	KD 000's	
	2015	*2014*
Financing receivables		
Murabaha and wakala	**7,846,032**	7,585,941
Leased assets	**1,752,062**	1,912,411
Istisna'a and other receivables	**109,280**	136,023
	9,707,374	9,634,375
Less: deferred profit	**(1,107,674)**	(1,028,795)
Net receivables	**8,599,700**	8,605,580
Less: impairment	**(472,223)**	(486,659)
	8,127,477	8,118,921

The distribution of receivables is as follows:

	KD 000's	
Industry sector	***2015***	*2014*
Trading and manufacturing	**4,520,521**	4,265,597
Banks and financial institutions	**216,915**	192,701
Constructions and real estates	**2,932,547**	3,126,644
Other	**2,037,391**	2,049,433
	9,707,374	9,634,375
Less: deferred profit	**(1,107,674)**	(1,028,795)
Net receivables	**8,599,700**	8,605,580
Less: impairment	**(472,223)**	(486,659)
	8,127,477	8,118,921

The distribution of receivables is as follows:

	KD 000's	
Geographic region	***2015***	*2014*
Middle East	**5,810,556**	5,379,943
Europe	**3,109,307**	3,094,894
Other	**787,511**	1,159,538
	9,707,374	9,634,375
Less: deferred profit	**(1,107,674)**	(1,028,795)
Net receivables	**8,599,700**	8,605,580
Less: impairment	**(472,223)**	(486,659)
	8,127,477	8,118,921

9 FINANCING RECEIVABLES (continued)

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

	Specific		*General*		*Total*	
	2015	*2014*	***2015***	*2014*	***2015***	*2014*
						KD 000's
Balance at beginning of year	**209,072**	238,107	**277,587**	258,350	**486,659**	496,457
Provided during the year (Note 5)	**141,600**	64,213	**25,698**	17,724	**167,298**	81,937
Amounts written off; net of foreign currency translation	**(172,425)**	(93,248)	**(9,309)**	1,513	**(181,734)**	(91,735)
Balance at end of year	**178,247**	209,072	**293,976**	277,587	**472,223**	486,659
Murabahas and wakalas	**160,973**	160,950	**263,339**	251,797	**424,312**	412,747
Leased assets	**15,621**	34,503	**28,874**	23,643	**44,495**	58,146
Istisna'a and other receivables	**1,653**	13,619	**1,763**	2,147	**3,416**	15,766
	178,247	209,072	**293,976**	277,587	**472,223**	486,659

Non performing cash and non-cash financing facilities
At 31 December 2015, non-performing finance facilities (net of collateral) amounted to KD 294,206 thousand (2014: KD 351,966 thousand).

			KD 000's
	Pre-invasion	***Post liberation***	***Total***
2015			
Finance facilities	**5**	**294,201**	**294,206**
Impairment	**5**	**187,104**	**187,109**
2014			
Finance facilities	7	351,959	351,966
Impairment	7	227,731	227,738

Reversal of provision for the year on non-cash facilities is KD 10,593 thousand (2014: charge of KD 5,784 thousand) (Note 5). The available provision on non-cash facilities of KD 19,995 thousand (2014: KD 30,588 thousand) is included under other liabilities (Note 21).

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

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

		KD 000's
	2015	*2014*
Within one year	**1,047,420**	1,415,798
One to five years	**320,174**	243,262
After five years	**384,468**	253,351
	1,752,062	1,912,411

The unguaranteed residual value of the leased assets at 31 December 2015 is estimated at KD 238,501 thousand (2014: KD 539,117 thousand).

The fair value of collateral held against leased assets at 31 December 2015 is KD 2,828,019 thousand (2014: KD 3,687,253 thousand).

10 INVESTMENTS

	KD 000's	
	2015	*2014*
Sukook	**806,544**	857,311
Managed portfolios	**103,901**	101,440
Unquoted equity investments	**126,855**	140,986
Venture capital at fair value through statement of income	**132,030**	135,179
Mutual funds	**71,911**	81,659
Quoted equity investments	**73,515**	52,909
	1,314,756	1,369,484
Financial assets available for sale at fair value	**1,034,914**	1,107,329
Financial assets available for sale carried at cost	**147,812**	126,976
Venture capital at fair value through statement of income	**132,030**	135,179
	1,314,756	1,369,484

Included in managed portfolios are an amount of KD 49,248 thousand (2014: KD 58,865 thousand) which represents the Bank's investment in 91,199 thousand shares (2014: 82,909 thousand shares) of the Bank on behalf of depositors, equivalent to 1.91 % of the total issued share capital at 31 December 2015 (2014: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

11 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		***Country of registration***	***Principal activities***	***Financial statements reporting date***
	2015	*2014*			
Specialties Group Holding Company K.S.C. (Closed)	39	39	Kuwait	Holding investments	30 September 2015
First Takaful Insurance Company K.S.C. (Closed)	-	28	Kuwait	Islamic takaful insurance	30 September 2015
Sharjah Islamic Bank P.J.S.C.	20	20	United Arab Emirates	Islamic banking services	30 September 2015
Ibdar Bank BSC	40	40	Bahrain	Islamic banking service	30 September 2015
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	53	-	Kuwait	Aircraft leasing and financing services	30 September 2015

During the current year, the Group has classified its investment in ALAFCO as an associate (Note 18).

11 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates the summarised aggregate information of the Group associates, as all associates are individually immaterial:

Summarised consolidated statement of financial position:

	KD 000's	
	2015	*2014*
Assets	**4,065,714**	2,822,385
Liabilities	**(2,869,457)**	(1,910,235)
Equity	**1,196,257**	912,150
Carrying amount of the investment	**355,670**	256,683

Summarised consolidated statement of income:

	2015	*2014*
Revenues	**196,616**	264,640
Expenses	**(163,085)**	(220,517)
Profit for the year	**33,531**	44,123
Group's share of profit for the year	**4,756**	7,236

Investments in associates with a carrying amount of KD 193,431 thousand (2014: KD 99,826 thousand) have a market value of KD 160,782 thousand at 31 December 2015 (2014: KD 85,874 thousand) based on published quotes.

Dividends received from the associates during the current year amounted to KD 5,068 thousand (2014: KD 4,038 thousand).

12 INVESTMENT IN JOINT VENTURES

The major joint ventures of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2015	*2014*			
Durrat Khaleej Al-Bahrain Company B.S.C.	**50**	50	Bahrain	Real estate development	30 November 2015
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	30 November 2015
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	30 November 2015
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	30 November 2015
PK Development Properties Company W.L.L.	**50**	50	Bahrain	Real estate development	30 November 2015

12 INVESTMENT IN JOINT VENTURES (continued)

The following table illustrates the summarised aggregate information of the Group joint ventures:

Summarised consolidated statement of financial position:

	KD 000's	
	2015	*2014*
Assets	**615,232**	650,369
Liabilities	**(397,371)**	(322,765)
Equity	**217,861**	327,604
Carrying amount of the investment	**179,186**	206,027

Summarised consolidated statement of income:

	KD 000's	
	2015	*2014*
Revenues	**8,039**	12,278
Expenses	**(5,356)**	(6,322)
Profit for the year	**2,683**	5,956
Group's share of profit for the year	**1,314**	1,777

13 INVESTMENT PROPERTIES

	KD 000's	
	2015	*2014*
At 1 January	**529,285**	524,342
Arising on consolidation	**-**	49,214
Additions	**141,006**	91,747
Transfer to leasehold rights (Note 17)	**(23,108)**	-
Transfer to trading properties	**(136)**	(8,086)
Disposals	**(46,101)**	(81,623)
Depreciation charged for the year	**(7,770)**	(8,050)
Impairment loss charged for the year (Note 5)	**(12,677)**	(38,259)
At 31 December	**580,499**	529,285

	KD 000's	
	2015	*2014*
Developed properties	**434,031**	367,528
Properties under construction	**146,468**	161,757
	580,499	529,285

14 OTHER ASSETS

	KD 000's	
	2015	*2014*
Precious metals inventory	**49,882**	166,503
Trade receivable	**173,945**	164,970
Clearing accounts	**81,846**	82,669
Receivables on disposals of investment	**6,210**	39,396
Deferred tax	**26,968**	22,220
Advances for investment properties	**2,446**	40,727
Other miscellaneous assets	**128,012**	122,970
	469,309	639,455

15 INTANGIBLE ASSETS AND GOODWILL

	KD 000's	
	2015	*2014*
Intangible assets	**41,222**	55,188
Goodwill	**6,738**	6,605
	47,960	61,793

Movement of intangible assets is as follows:

	KD 000's	
	2015	*2014*
Cost		
At 1 January	**83,707**	75,959
Additions	**11,689**	10,975
Disposal	**(4,768)**	(150)
Impairment	**(12,876)**	(3,077)
At 31 December	**77,752**	83,707
Accumulated amortization		
At 1 January	**28,519**	18,861
Charge for the year	**9,803**	9,658
Disposals	**(1,792)**	-
At 31 December	**36,530**	28,519
Net book value		
At 31 December	**41,222**	55,188

Intangible assets include license of Islamic brokerage company of KD 14,671 thousand (2014: KD 14,671 thousand) with indefinite useful life. The carrying value of brokerage license is tested for impairment on an annual basis by estimating the recoverable amount of the cash generating unit and as a result the management believes there are no indications of impairment. In addition, the balance includes exploration rights of KD 6,162 thousand (2014: KD 11,818 thousand) with finite useful life. Other intangible assets amounting to KD 20,389 thousand (2014: KD 28,699 thousand) represent software development cost, software license right and other rights with finite useful life. Intangible assets with finite lives are amortised over its useful economic life.

During the current year, goodwill amounting to KD 18 thousand was impaired (2014: KD 3,345 thousand).

16 PROPERTY AND EQUIPMENT

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	***2015 Total***
Cost:							
At 1 January 2015	**25,006**	**130,576**	**761,467**	**223,628**	**53,431**	**73,300**	**1,267,408**
Additions	**326**	**1,458**	**57,743**	**17,244**	**32,473**	**13,673**	**122,917**
Disposals	**(1,204)**	**(6,448)**	**(8,568)**	**(11,649)**	**(32,443)**	**-**	**(60,312)**
Transfer from (to)	**-**	**-**	**-**	**8,040**	**-**	**(8,040)**	**-**
Deconsolidation of a subsidiary (Note 18)	**-**	**-**	**(801,201)**	**(468)**	**-**	**-**	**(801,669)**
At 31 December 2015	**24,128**	**125,586**	**9,441**	**236,795**	**53,461**	**78,933**	**528,344**
Accumulated depreciation:							
At 1 January 2015	**-**	**71,367**	**157,762**	**151,753**	**9,164**	**-**	**390,046**
Depreciation charge for the year	-	**3,266**	**31,749**	**21,517**	**5,207**	**-**	**61,739**
Relating to disposals	-	**(1,049)**	**(9,565)**	**(7,539)**	**(5,160)**	**-**	**(23,313)**
Impairment (Note 5)	-	-	**5,642**	**8,443**	**-**	**-**	**14,085**
Deconsolidation of a subsidiary (Note 18)	-	-	**(178,139)**	**(255)**	**-**	**-**	**(178,394)**
At 31 December 2015	**-**	**73,584**	**7,449**	**173,919**	**9,211**	**-**	**264,163**
Net carrying amount:							
At 31 December 2015	**24,128**	**52,002**	**1,992**	**62,876**	**44,250**	**78,933**	**264,181**

16 PROPERTY AND EQUIPMENT (continued)

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	*2014 Total*
Cost:							
At 1 January 2014	18,015	97,926	762,368	174,739	36,726	64,158	1,153,932
Additions	169	11,766	27,618	7,524	25,468	10,135	82,680
Disposals	-	(862)	(28,519)	(6,695)	(29,586)	-	(65,662)
Transfers	-	-	-	1,232	-	(1,232)	-
Arising from consolidation	6,822	21,746	-	46,828	20,823	239	96,458
At 31 December 2014	25,006	130,576	761,467	223,628	53,431	73,300	1,267,408
Accumulated depreciation:							
At 1 January 2014	-	57,217	144,986	132,124	7,012	-	341,339
Depreciation charge for the year	-	3,513	29,124	23,249	4,986	-	60,872
Relating to disposals	-	(426)	(16,348)	(14,610)	(5,537)	-	(36,921)
Impairment (Note 5)	-	-	-	(432)	-	-	(432)
Arising from consolidation	-	11,063	-	11,422	2,703	-	25,188
At 31 December 2014	-	71,367	157,762	151,753	9,164	-	390,046
Net carrying amount:							
At 31 December 2014	25,006	59,209	603,705	71,875	44,267	73,300	877,362

Included in property and equipment is the head office building and all branches of the Bank. The ownership of the buildings is attributable only to the shareholders of the Bank.

The gross carrying value of fully depreciated property and equipment still in use at the reporting date is KD 107,859 thousand (2014: KD 92,369 thousand).

17 LEASEHOLD RIGHTS

	KD 000's	
	2015	*2014*
Cost		
At 1 January	**131,429**	131,307
Transfer from investment properties (Note 13)	**23,108**	-
Addition	**48,680**	122
At 31 December	**203,217**	131,429
Accumulated amortization		
At 1 January	**14,348**	5,987
Charge for the year	**9,242**	8,361
At 31 December	**23,590**	14,348
Net book value		
At 31 December	**179,627**	117,081

Leasehold rights represent right of using a commercial properties which are amortised over the lease period.

18 SUBSIDIARIES

18.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2015	*2014*		
Kuwait Finance House (Malaysia) Berhad	Malaysia	100	100	Islamic banking services	31 December 2015
KFH Private Equity Ltd	Cayman Islands	100	100	Islamic investments	31 December 2015
KFH Financial Service Ltd.	Cayman Islands	100	100	Islamic real estate development and investments	31 December 2015
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	99.9	99.9	Islamic finance and investments	30 September 2015
KFH Real Estate Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Real estate development and leasing	31 October 2015
Development Enterprises Holding Company K.S.C. (Closed) *	Kuwait	99.9	99.9	Infrastructure and industrial investment	31 December 2015
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	100	100	Real estate development and investment	30 September 2015
KFH Investment Company K.S.C. (Closed)*	Kuwait	99.9	99.9	Islamic finance and investments	30 September 2015
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	100	100	Islamic investment	31 December 2015

18 SUBSIDIARIES (continued)

18.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2015	2014		
Kuwait Finance House B.S.C.	Bahrain	100	100	Islamic banking services	31 December 2015
Gulf International Automobile Trading Company K.S.C. (Closed) *	Kuwait	99.6	99.6	Trading, import and export of used cars	30 September 2015
E'amar	Cayman Islands	100	100	Islamic investments	31 December 2015
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	97	97	Computer maintenance, consultancy and software services	30 September 2015
Muthana GCC Islamic Banks Fund	Kuwait	90	87	Islamic equity investments	30 September 2015
Public Service Company K.S.C. (Closed)	Kuwait	80	80	Management consultancy and services	30 September 2015
Kuwait Turkish Participation Bank	Turkey	62	62	Islamic banking services	31 December 2015
Al Salam Hospital Co. K.S.C.(Closed)	Kuwait	55	55	Healthcare services	30 September 2015
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	56	56	Real estate, investment, trading and real estate management	31 October 2015
Muthana Islamic Index Fund	Kuwait	63	55	Islamic equity investments	30 September 2015
Aref Investment Group K.S.C.(Closed)	Kuwait	53	53	Islamic investments	30 September 2015
ALAFCO – Aviation Lease and Finance Company K.S.C.P.	Kuwait	-	53	Aircraft leasing and financing services	30 September 2015
Turkapital Holding B.S.C.(C)	Bahrain	51	51	Real estate, auto leasing and insurance	30 September 2015

**Effective ownership percentage is 100% (2014: 100%).*

On 26 November 2015, the annual general assembly of the shareholders of ALAFCO approved to increase the share capital of ALAFCO by KD 30 million through issuance of 133 million shares to a strategic investor. Further the shareholders of ALAFCO also appointed new board of directors of ALAFCO with representation from the strategic investor and other shareholders resulting in the Bank having significant, but not major representation in the Board of Directors of ALAFCO. At the reporting date, all regulatory approvals for increasing share capital of ALAFCO were obtained.

In view of these developments, management of the Bank has re-assessed its interest in ALAFCO and concluded that it is no longer able to exercise control. Accordingly; the Bank has deconsolidated ALAFCO and recognised its interest in ALAFCO as an investment in an associate.

The deconsolidation of ALAFCO resulted in reduction in total assets, total liabilities and non-controlling interest reported in the consolidated statement of financial position of the Bank by KD 594,162 thousand, KD 548,397 thousand and KD 104,515 respectively.

18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiaries

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

Proportion of equity interest held by non-controlling interests:

	Country of incorporation & operation	*Percentage*	
		2015	*2014*
Kuwait Turkish Participation Bank (KTPB)	Turkey	38%	38%
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	Kuwait	-	47%
Aref Investment Group K.S.C. (Closed) (AIG)	Kuwait	47%	47%
Al Enma'a Real Estate Company K.S.C.P. (ERECO)	Kuwait	44%	44%

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

Summarised consolidated statement of income for 31 December 2015:

			KD 000's
	KTPB	***AIG***	***ERECO***
Revenues	**333,336**	**37,563**	**8,943**
Expenses	**(274,900)**	**(17,787)**	**(4,561)**
Profit for the year	**58,436**	**19,776**	**4,382**
Attributable to non-controlling interests	**22,065**	**11,900**	**(1,330)**

Summarised consolidated statement of income for 31 December 2014:

				KD 000's
	KTPB	*ALAFCO*	*AIG*	*ERECO*
Revenues	333,901	57,800	46,242	7,749
Expenses	(272,501)	(41,276)	(28,216)	(4,381)
Profit for the year	61,400	16,524	18,026	3,368
Attributable to non-controlling interests	19,534	7,836	6,952	(2,649)

Summarised consolidated statement of financial position as at 31 December 2015:

			KD 000's
	KTPB	***AIG***	***ERECO***
Total assets	**4,766,514**	**451,528**	**105,604**
Total liabilities	**(4,245,110)**	**(304,115)**	**(40,184)**
Total equity	**521,404**	**147,413**	**65,420**
Attributable to non-controlling interests	**217,249**	**77,461**	**15,853**

18 SUBSIDIARIES (continued)

18.2 Material partly-owned subsidiaries (continued)

Summarised consolidated statement of financial position as at 31 December 2014:

	KTPB	*ALAFCO*	*AIG*	*ERECO*
				KD 000's
Total assets	4,648,636	660,034	421,328	105,728
Total liabilities	(4,166,847)	(466,403)	(290,865)	(44,639)
Total equity	481,789	193,631	130,463	61,089
Attributable to non-controlling interests	196,924	91,006	42,465	17,182

Summarised consolidated statement of cash flows for year ending 31 December 2015:

	KTPB	***AIG***	***ERECO***
			KD 000's
Operating	**286,510**	**13,690**	**(4,486)**
Investing	**(5,581)**	**3,976**	**9,965**
Financing	**(127,055)**	**(5,466)**	**(5,612)**
Net increase (decrease) in cash and cash equivalents	**153,874**	**12,200**	**(133)**

Summarised consolidated statement of cash flows for year ending 31 December 2014:

	KTPB	*ALAFCO*	*AIG*	*ERECO*
				KD 000's
Operating	402,038	61,314	(2,819)	4,058
Investing	125,247	(3,033)	10,795	(4,421)
Financing	46,413	(52,484)	(16,610)	1,281
Net increase (decrease) in cash and cash equivalents	573,698	5,797	(8,634)	918

19 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2015	*2014*
		KD 000's
Current accounts	**5,387**	3,806
Murabaha payable	**2,595,653**	2,871,350
Sukook payable	**322,466**	225,634
Obligations under finance leases	**-**	350,472
	2,923,506	3,451,262

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

20 DEPOSITORS' ACCOUNTS

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

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

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods 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.

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

21 OTHER LIABILITIES

		KD 000's
	2015	*2014*
Trade payables	**210,799**	186,614
Accrued expenses	**97,574**	125,255
Certified cheques	**74,309**	69,671
Due to customers for contract work	**37,889**	38,191
Maintenance and other reserve	**42,790**	118,076
Employees' end of service benefits	**68,825**	58,748
Letter of guarantee covered	**46,423**	33,600
Refundable deposits	**979**	16,206
Provision on non cash facilities (Note 9)	**19,995**	30,588
Other miscellaneous liabilities	**109,264**	75,267
	708,847	752,216

22 RESERVES

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Employees' share options reserve*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	*Total*
Balance at 1 January 2014 *(Restated)*	283,584	287,942	-	4,246	6,725	(360)	(56,442)	(8,920)	516,775
Profit for the year	-	-	126,476	-	-	-	-	-	126,476
Other comprehensive income	-	-	-	-	-	4,853	2,132	-	6,985
Total comprehensive income	-	-	126,476	-	-	4,853	2,132	-	133,461
Zakat paid	-	(6,020)	-	-	-	-	-	-	(6,020)
Transfer to retained earnings	(45,332)	(43,670)	89,002	-	-	-	-	-	-
Proposed issue of bonus shares (Note 24)	-	-	(43,319)	-	-	-	-	-	(43,319)
Proposed cash dividends (Note 24)	-	-	(63,935)	-	-	-	-	-	(63,935)
Profit on sale of treasury shares	-	-	-	-	353	-	-	-	353
Balance at 31 December 2014	238,252	238,252	108,224	4,246	7,078	4,493	(54,310)	(8,920)	537,315

22 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Employees' share options reserve*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
Balance at 1 January 2015	**238,252**	**238,252**	**108,224**	**4,246**	**7,078**	**4,493**	**(54,310)**	**(8,920)**	**537,315**
Profit for the year	**-**	**-**	**145,841**	**-**	**-**	**-**	**-**	**-**	**145,841**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**13,236**	**(35,894)**	**-**	**(22,658)**
Total comprehensive income (loss)	**-**	**-**	**145,841**	**-**	**-**	**13,236**	**(35,894)**	**-**	**123,183**
Zakat paid	**-**	**-**	**(6,327)**	**-**	**-**	**-**	**-**	**-**	**(6,327)**
Transfer to retained earnings	**-**	**-**	**4,246**	**(4,246)**	**-**	**-**	**-**	**-**	**-**
Deconsolidation of a subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**(7,029)**	**-**	**(7,029)**
Proposed issue of bonus shares (Note 24)	**-**	**-**	**(47,650)**	**-**	**-**	**-**	**-**	**-**	**(47,650)**
Proposed cash dividends (Note 24)	**-**	**-**	**(79,755)**	**-**	**-**	**-**	**-**	**-**	**(79,755)**
Acquisition of non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,676)**	**(14,676)**
Profit on sale of treasury shares	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**6**
Balance at 31 December 2015	**238,252**	**238,252**	**124,579**	**-**	**7,084**	**17,729**	**(97,233)**	**(23,596)**	**505,067**

22 RESERVES (continued)

In the ordinary and extraordinary general assembly meeting of the shareholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers of profit for the year attributable to the shareholders of the Bank to statutory reserve in excess of 10%. In accordance with the articles of association of the Bank, the ordinary general assembly of the shareholders of the Bank can approve an increase in the transfer of 10% each of the profit for the year attributable to the shareholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank.

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.

The ordinary general assembly meeting of the shareholders of the Bank held on 16 March 2015 approved to restrict the balance of statutory reserve and voluntary reserve up to 50% of the paid-up share capital and transfer amounts in excess of 50% of the paid-up capital from statutory reserve and voluntary reserve to retained earnings. As a result, amounts of KD 45,332 thousand and KD 43,670 thousand were transferred from statutory reserve and voluntary reserve respectively to retained earnings.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the Bank, except for the amount of KD 50,173 thousand (2014: KD 52,497 thousand) which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 23).

The share premium balance is not available for distribution.

Fair value reserve, foreign currency translation reserve and other reserve are attributable to both shareholders and deposit account holders.

23 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 16 March 2015 approved 10% bonus shares on outstanding shares amounting to KD 43,319 thousand for the year ended 31 December 2014 (Note 24).

Share capital

	KD 000's	
	2015	*2014*
Authorized, issued and fully paid in cash:		
4,765,035,998 (2014: 4,331,850,908) shares of 100 fils each	**476,504**	433,185

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

	2015	*2014*
Number of shares in issue 1 January	**4,331,850,908**	3,833,496,379
Bonus issue	**433,185,090**	498,354,529
Number of shares in issue 31 December	**4,765,035,998**	4,331,850,908

23 SHARE CAPITAL AND TREASURY SHARES (continued)

Treasury shares and treasury share reserve.
The Group held the following treasury shares at the year-end:

	2015	*2014*
Number of treasury shares	**73,537,453**	69,541,487
Treasury shares as a percentage of total shares in issue	**1.54%**	1.61%
Cost of treasury shares (KD)	**50,173,113**	52,497,075
Market value of treasury shares (KD)	**39,710,225**	49,374,456

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

An amount of KD 50,173 thousands (31 December 2014: KD 52,497 thousands) equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

The weighted average market price of the Bank's shares for the year ended 31 December 2015 was 651 fils per share (31 December 2014: 807 fils per share).

24 PROPOSED DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 17% for the year ended 31 December 2015 (2014: 15%) and issuance of bonus shares of 10% (2014: 10%) of paid up share capital as follows:

				KD 000's
	2015		*2014*	
		Total		*Total*
Proposed cash dividends (per share)	**17 fils**	**79,755**	15 fils	63,935
Proposed issuance of bonus shares (per 100 shares)	**10 shares**	**47,650**	10 shares	43,319

This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank and completion of legal formalities. Proposed dividends are shown separately within equity.

The Board of Directors of the Bank has proposed Directors' fees of KD 610 thousand (2014: KD 610 thousand), (Note 27) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

25 CONTINGENCIES AND CAPITAL COMMITMENTS

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

		KD 000's
	2015	*2014*
Acceptances and letters of credit	**143,603**	168,358
Letter of Guarantees	**1,513,029**	1,316,912
Contingent liabilities	**1,656,632**	1,485,270

		KD 000's
	2015	*2014*
Associates	**-**	2,500
Purchase of aircrafts and engines	**-**	1,620,271
Other commitments	**349,775**	358,821
Capital commitments	**349,775**	1,981,592

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

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

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

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

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

KD 000's

	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity*		
				Within 3 months	*3 to 12 months*	*More than 12 months*
31 December 2015						
Not designated as hedges						
Forward contracts	**1,681**	**1,460**	**172,626**	**94,907**	**73,688**	**4,031**
Profit rate swaps	**625**	**11**	**17,337**	**-**	**-**	**17,337**
Currency swaps	**3,021**	**16,423**	**541,893**	**411,278**	**59,591**	**71,024**
Embedded precious metals	**2**	**2**	**79,711**	**-**	**79,704**	**7**
	5,329	**17,896**	**811,567**	**506,185**	**212,983**	**92,399**

KD 000's

	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity*		
				Within 3 months	*3 to 12 months*	*More than 12 months*
31 December 2014						
Not designated as hedges						
Forward contracts	2,742	1,858	221,855	164,946	54,042	2,867
Profit rate swaps	939	7	20,251	-	-	20,251
Currency swaps	2,735	1,431	360,523	348,688	883	10,952
Embedded precious metals	-	61	146,833	-	44,987	101,846
	6,416	3,357	749,462	513,634	99,912	135,916

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

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

	Notional amount	*Within 3 months*	*3 to 12 Months*	*More than 12 months*
				KD 000's
31 December 2015				
Cash inflows	**811,567**	**506,185**	**212,983**	**92,399**
Cash outflows	**(744,380)**	**(507,236)**	**(133,310)**	**(103,834)**
Net cash flows	**67,187**	**(1,051)**	**79,673**	**(11,435)**
31 December 2014				
Cash inflows	749,462	513,634	99,912	135,916
Cash outflows	(600,574)	(511,358)	(54,611)	(34,605)
Net cash flows	148,888	2,276	45,301	101,311

27 RELATED PARTY TRANSACTIONS

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

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

					KD 000's	
					Total	
	Major shareholders	*Associates & joint ventures*	*Board Members and Executive Officers*	*Other related party*	***2015***	*2014*
Financing income	**-**	**4,729**	**374**	**300**	**5,403**	5,617
Investment income	**-**	**-**	**-**	**-**	**-**	150
Fee and commission income	**-**	**105**	**4**	**210**	**319**	1,261
Finance costs	**16,248**	**1,179**	**-**	**833**	**18,260**	19,051

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

					KD 000's	
					Total	
	Major shareholders	*Associates & joint ventures*	*Board Members and Executive Officers*	*Other related party*	***2015***	*2014*
Financing receivables	**-**	**120,729**	**6,992**	**14,693**	**142,414**	121,693
Due to banks and financial institutions	**1,302,852**	**-**	**-**	**2,182**	**1,305,034**	1,239,719
Depositors' accounts	**-**	**107,146**	**10,587**	**8,137**	**125,870**	70,423
Contingencies and capital commitments	**936**	**3,313**	**22**	**34,418**	**38,689**	36,268
Investment managed by related party	**-**	**-**	**-**	**33,824**	**33,824**	33,453

27 RELATED PARTY TRANSACTIONS (continued)

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

	The number of Board Members or Executive Officers		*The number of related parties*		*KD 000's*	
	2015	*2014*	***2015***	*2014*	***2015***	*2014*
Board Members						
Finance facilities	**36**	31	**4**	7	**39,228**	41,539
Credit cards	**20**	8	**-**	2	**36**	17
Deposits	**87**	68	**16**	22	**12,389**	12,218
Collateral against financing facilities	**11**	10	**1**	-	**9,104**	16,885
Executive officers						
Finance facilities	**30**	35	**6**	3	**2,697**	4,168
Credit cards	**23**	15	**2**	-	**113**	59
Deposits	**58**	63	**20**	25	**1,450**	3,224
Collateral against financing facilities	**14**	17	**4**	2	**4,885**	11,444

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

	KD 000's	
	Total	
	2015	*2014*
Board Members		
Finance income	**284**	426
Executive officers		
Finance income	**97**	312
	381	738

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

	KD 000's	
	Total	
	2015	*2014*
Salaries, allowances and bonuses of key management personnel	**17,201**	16,821
Termination benefits of key management personnel	**987**	1,427
Remuneration of chairman and board members*	**1,821**	2,511
	20,009	20,759

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

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

28 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

					KD 000's
31 December 2015	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	**5,524,697**	**2,068,128**	**8,116,539**	**817,305**	**16,526,669**
Total liabilities	**3,031,638**	**192,068**	**10,833,997**	**413,477**	**14,471,180**
Operating Income	**12,110**	**156,336**	**457,393**	**114,732**	**740,571**
Provisions and impairment	**-**	**(60,401)**	**(92,158)**	**(21,927)**	**(174,486)**
Profit for the year	**6,759**	**18,220**	**222,067**	**(57,276)**	**189,770**

					KD 000's
31 December 2014	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	5,260,073	2,405,324	8,027,314	1,489,200	17,181,911
Total liabilities	3,580,993	123,200	10,763,844	616,833	15,084,870
Operating Income	47,837	149,351	436,752	118,340	752,280
Provisions and impairment	(462)	(94,953)	(77,413)	(5,421)	(178,249)
Profit for the year	14,523	8,388	157,792	(20,628)	160,075

28 SEGMENTAL ANALYSIS (continued)

Secondary segment information

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

	Assets		*Contingencies and capital commitments*	
KD 000's	***2015***	*2014*	***2015***	*2014*
Geographical areas:				
Middle East	**10,732,965**	10,609,964	**794,834**	496,532
Europe	**4,241,242**	4,157,010	**1,161,744**	2,676,074
Other	**1,552,462**	2,414,937	**49,829**	294,256
	16,526,669	17,181,911	**2,006,407**	3,466,862

	Local		*International*		*Total*	
KD 000's	***2015***	*2014*	***2015***	*2014*	***2015***	*2014*
Operating income	**277,645**	288,230	**462,926**	464,050	**740,571**	752,280
Profit for the year	**90,849**	36,825	**98,921**	123,250	**189,770**	160,075

29 RISK MANAGEMENT

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

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

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

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

The Group is exposed to liquidity risk, credit risk, concentration risk, profit return risk, equity price risk and currency risk.

29 RISK MANAGEMENT (continued)

a) Risk management structure

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

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

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

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

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

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

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

b) Risk management and reporting systems

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

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

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

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

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

30 CREDIT RISK

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

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

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

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

			KD 000' s
	Notes	***2015***	*2014*
Balances with banks and financial institutions		**1,352,997**	1,427,773
Short-term murabaha	8	**3,193,930**	3,222,420
Financing receivables	9	**8,127,477**	8,118,921
Financial assets available for sale – Sukook	10	**806,544**	857,311
Trade and other receivables		**301,957**	287,988
Total		**13,782,905**	13,914,413
Contingent liabilities	25	**1,656,632**	1,485,270
Commitments	25	**349,775**	1,981,592
Total		**2,006,407**	3,466,862
Total credit risk exposure		**15,789,312**	17,381,275

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

Risk concentrations of the maximum exposure to credit risk
Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2015 was KD 126,840 thousands (2014: KD 126,659 thousands) before taking account of any collaterals.

30 CREDIT RISK (continued)

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

	KD 000's	
	2015	*2014*
Middle East	**8,791,011**	8,602,685
Europe	**3,873,993**	4,015,574
Other	**1,117,901**	1,296,154
	13,782,905	13,914,413

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

	KD 000's	
	2015	*2014*
Trading and manufacturing	**3,666,703**	3,773,403
Banks and financial institutions	**5,229,552**	5,196,480
Construction and real estate	**2,573,518**	2,901,457
Other	**2,313,132**	2,043,073
	13,782,905	13,914,413

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

				KD 000's
	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2015				
Financing receivables (Note 9)	**4,474,206**	**2,686,442**	**966,829**	**8,127,477**
Financial assets available for sale – sukook (Note10)	**733,002**	**72,862**	**680**	**806,544**
	5,207,208	**2,759,304**	**967,509**	**8,934,021**

30 CREDIT RISK (continued)

KD 000's

	Neither past due nor impaired			
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2014				
Financing receivables (Note 9)	3,859,116	3,190,633	1,069,172	8,118,921
Financial assets available for sale – sukook (Note10)	856,473	-	838	857,311
	4,715,589	3,190,633	1,070,010	8,976,232

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

KD 000's

	Less than 30 days	***31 to 60 days***	***61 to 90 days***	***Total***
31 December 2015				
Financing receivables	**248,082**	**78,680**	**125,282**	**452,044**
31 December 2014				
Financing receivables	188,867	86,282	103,200	378,349

The value of rescheduled facilities amounted to KD 408,312 thousand (2014: KD 409,654 thousand).

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

Collateral

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

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

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

The fair value of collateral that the Group holds relating to finance facilities individually determined to be impaired at 31 December 2015 amounts to KD 131,203 thousand (2014: KD 151,074thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2015 was KD 165,099 thousand (2014: KD 181,106 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

31 LIQUIDITY RISK

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

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The table below summarizes the maturity profile of the Group's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end are based on contractual repayment arrangement and planned exit dates.

The maturity profile of assets and undiscounted liabilities at 31 December 2015 is as follows:

					KD 000's
	Within 3 months	*3 to 6 months*	*6 to 12 months*	*After one year*	***Total***
Assets					
Cash and balances with banks and financial institutions	**1,567,356**	**376**	**526**	**31,454**	**1,599,712**
Short-term murabaha	**2,612,037**	**406,894**	**174,999**	**-**	**3,193,930**
Financing receivables	**1,809,757**	**945,948**	**1,284,410**	**4,087,362**	**8,127,477**
Trading properties	**6,204**	**126,425**	**37,957**	**43,776**	**214,362**
Investments	**395,318**	**8,957**	**29,279**	**881,202**	**1,314,756**
Investments in associates and joint ventures	**-**	**31,928**	**-**	**502,928**	**534,856**
Investment properties	**-**	**27,581**	**-**	**552,918**	**580,499**
Other assets	**76,356**	**36,821**	**23,894**	**332,238**	**469,309**
Intangible assets and goodwill	**-**	**-**	**-**	**47,960**	**47,960**
Property and equipment	**-**	**-**	**-**	**264,181**	**264,181**
Leasehold rights	**-**	**-**	**-**	**179,627**	**179,627**
	6,467,028	**1,584,930**	**1,551,065**	**6,923,646**	**16,526,669**
Liabilities					
Due to banks and financial institutions	**1,672,589**	**390,209**	**469,531**	**391,177**	**2,923,506**
Depositors' accounts	**7,025,103**	**192,503**	**315,490**	**3,305,731**	**10,838,827**
Other liabilities	**88,603**	**45,068**	**93,211**	**481,965**	**708,847**
	8,786,295	**627,780**	**878,232**	**4,178,873**	**14,471,180**

31 LIQUIDITY RISK (continued)

The maturity profile of assets and undiscounted liabilities at 31 December 2014 is as follows:

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*After one year*	***Total***
					KD 000's
Assets					
Cash and balances with banks and financial institutions	1,570,613	323	3,427	29,772	1,604,135
Short-term murabaha	2,426,475	647,490	148,455	-	3,222,420
Financing receivables	1,935,055	684,903	1,243,826	4,255,137	8,118,921
Trading properties	2,355	119,044	9,504	48,362	179,265
Investments	374,926	8,369	43,885	942,304	1,369,484
Investments in associates and joint ventures	-	-	-	462,710	462,710
Investment properties	-	-	-	529,285	529,285
Other assets	207,835	2,984	58,090	370,546	639,455
Intangible assets and goodwill	-	-	-	61,793	61,793
Property and equipment	-	-	-	877,362	877,362
Leasehold rights	-	-	-	117,081	117,081
	6,517,259	1,463,113	1,507,187	7,694,352	17,181,911
Liabilities					
Due to banks and financial institutions	1,614,298	516,497	538,181	782,286	3,451,262
Depositors' accounts	6,985,853	208,594	239,829	3,447,116	10,881,392
Other liabilities	89,811	35,902	124,425	502,078	752,216
	8,689,962	760,993	902,435	4,731,480	15,084,870

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

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
						KD 000's
2015						
Contingent liabilities (Note 25)	**724,894**	**547,991**	**187,638**	**182,969**	**13,140**	**1,656,632**
Capital commitments (Note 25)	**329,218**	**3,733**	**10,130**	**6,694**	**-**	**349,775**
Total	**1,054,112**	**551,724**	**197,768**	**189,663**	**13,140**	**2,006,407**

31 LIQUIDITY RISK (continued)

KD 000's

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
2014						
Contingent liabilities (Note 25)	438,094	576,492	234,238	208,887	27,559	1,485,270
Capital commitments (Note 25)	352,763	684	3,113	957,657	667,375	1,981,592
Total	790,857	577,176	237,351	1,166,544	694,934	3,466,862

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

32 MARKET RISK

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

The Group is not exposed to any risk in terms of the repricing of its liabilities since the Group does not provide contractual rates of return to its depositors and other financing arrangements are at fixed profit rate in accordance with Islamic Shareea'a.

Non-trading market risk

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

KD 000's

	2015			*2014*		
Currency	***Change in currency rate %***	***Effect on profit***	***Effect on fair value reserve***	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	+1	**(168)**	**5,098**	+1	3,146	5,647
Bahraini Dinar	+1	**3,555**	**317**	+1	614	84

32 MARKET RISK (continued)

Non-trading 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 financial assets available for sale at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant is as follows:

				KD 000's
	2015		*2014*	
	Change in equity price %	***Effect on fair value reserve***	*Change in equity price %*	*Effect on fair value reserve*
Market indices				
Kuwait Stock Exchange	**+1**	**823**	+1	2,537
Other GCC indices	**+1**	**436**	+1	938

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

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

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

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

33 CAPITAL MANAGEMENT

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

The Group actively manages its capital base in order to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Central Bank of Kuwait in supervising the Group.

33 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) are shown below:

Capital adequacy	*KD 000's* 2015	2014
Risk Weighted Assets	**11,765,998**	12,070,441
Capital required	**1,529,580**	1,569,157
Capital available		
Tier 1 capital	**1,809,616**	1,785,838
Tier 2 capital	**151,343**	175,829
Total capital	**1,960,959**	1,961,667
Tier 1 capital adequacy ratio	**15.38%**	14.80%
Total capital adequacy ratio	**16.67%**	16.25%

The Group's financial leverage ratio for the year ended 31 December 2015 is calculated in accordance with CBK circular number 2/RBA/343/2014 dated 21 October 2014 is shown below:

	KD 000's 2015	2014
Tier 1 capital	**1,809,616**	1,785,838
Total exposure	**18,280,293**	19,446,159
Financial leverage ratio	**9.90%**	9.18%

34 MANAGEMENT OF PURCHASED DEBTS

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

35 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2015 amounted to KD 469,410 thousand (2014: KD 583,207 thousand).

Fees and commission income include fees of KD 2,612 thousand (2014: KD 10,069 thousand) arising from trust and fiduciary activities.

36 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value by valuation technique:

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2015.

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at fair value through statement of income (Note 10)	**-**	**132,030**	**-**	**132,030**
Financial assets available for sale (Note 10)	**698,113**	**70,416**	**266,385**	**1,034,914**
Derivative financial assets:				
Forward contracts	**1,681**	**-**	**-**	**1,681**
Profit rate swaps	**-**	**625**	**-**	**625**
Currency swaps	**3,021**	**-**	**-**	**3,021**
Embedded precious metals	**2**	**-**	**-**	**2**
Non-financial assets				
Investment properties	**-**	**756,033**	**-**	**756,033**
	702,817	**959,104**	**266,385**	**1,928,306**

				KD 000's
Liabilities measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Derivative financial liabilities:				
Forward contracts	**1,460**	**-**	**-**	**1,460**
Profit rate swaps	**-**	**11**	**-**	**11**
Currency swaps	**16,423**	**-**	**-**	**16,423**
Embedded precious metals	**2**	**-**	**-**	**2**
	17,885	**11**	**-**	**17,896**

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2014.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of Income (Note 10)	-	135,179	-	135,179
Financial assets available for sale (Note 10)	805,287	82,163	219,879	1,107,329
Derivative financial assets:				
Forward contracts	2,742	-	-	2,742
Profit rate swaps	-	939	-	939
Currency swaps	2,735	-	-	2,735
Non-financial assets				
Investment properties	-	702,971	-	702,971
	810,764	921,252	219,879	1,951,895

36 FAIR VALUES (continued)

				KD 000's
Liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	1,858	-	-	1,858
Profit rate swaps	-	7	-	7
Currency swaps	1,431	-	-	1,431
Embedded precious metals	61	-	-	61
	3,350	7	-	3,357

Investments classified under level 1 are valued based on the quoted bid price. Investments classified under level 2 are valued based on the reported NAVs.

Level 3 investments included unquoted sukook of KD 236,787 thousand (2014: KD 192,936 thousand) and unquoted equity investments of KD 29,598 thousand (2014: KD 26,943 thousand). Sukook included in this category represent sukook issued by sovereign entities, financial institutions and corporates. The fair values of unquoted sukook are estimated using discounted cash flow method using credit spread (ranging from 1.2% to 3.9%). Unquoted equity investments are fair valued using valuation technique that is appropriate in the circumstances. Valuation techniques include discounted cash flow models, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the consolidated statement of financial position or the consolidated statement of income or the consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments were altered by 5%.

Instruments disclosed in Note 26 are valued by discounting all future expected cash-flows using directly observable and quoted rate curves and spot/forward FX rates from recognized market sources (i.e. Reuters, Bloomberg, FinCAD, etc).

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

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

The following table below shows a reconciliation of the opening and the closing amount of level 3 financial assets available for sale:

		KD 000's
	2015	*2014*
As at 1 January	**219,879**	151,758
Re-measurement recognised in other comprehensive income	**204**	2,041
Purchases, net	**46,302**	66,080
As at 31 December	**266,385**	219,879