بيت التمويل الكويتي
Kuwait Finance House

35th Annual Report

Kuwait Finance House K.S.C.P. and Subsidiaries

2013

بسم الله الرحمن الرحيم

In the name of Allah the Most Gracious, the Most Merciful.

Ye who Believe! Fear Allah and give up what remains of your demand for usury, if ye are indeed believers (278). If ye do it not, take notice of war from Allah and his Apostle, but if ye turn back, ye shall have your capital sums deal not unjustly and ye shall not be dealt unjustly (279).

Al Baqara (278 - 279) Al-Quran

His Highness
Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir of the State of Kuwait

His Highness
Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

His Highness
Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah
The Prime Minister

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Kuwait Finance House (KFH)

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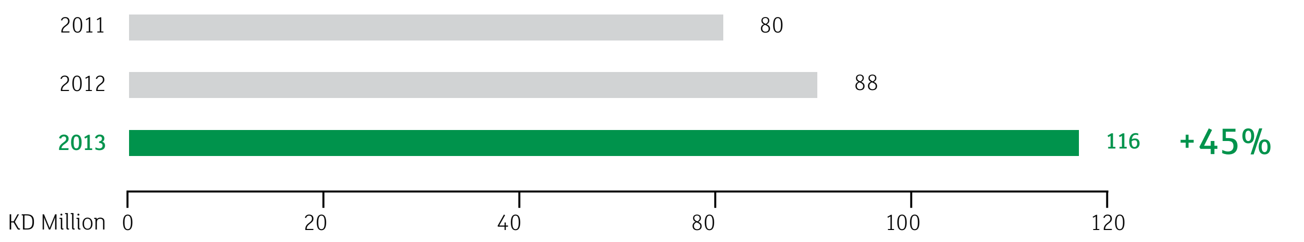
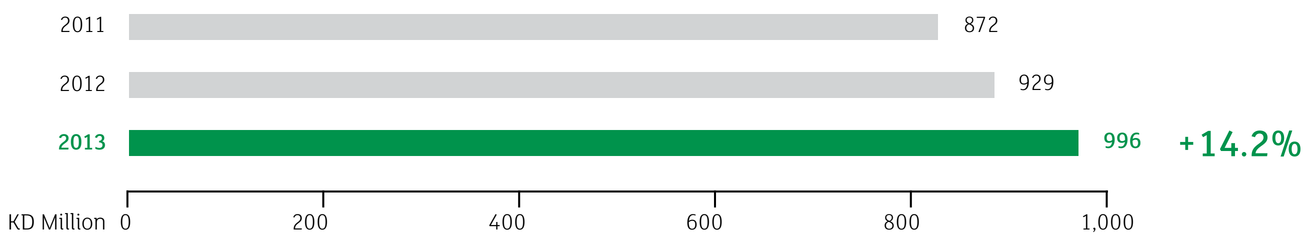
Financial Performance Highlights

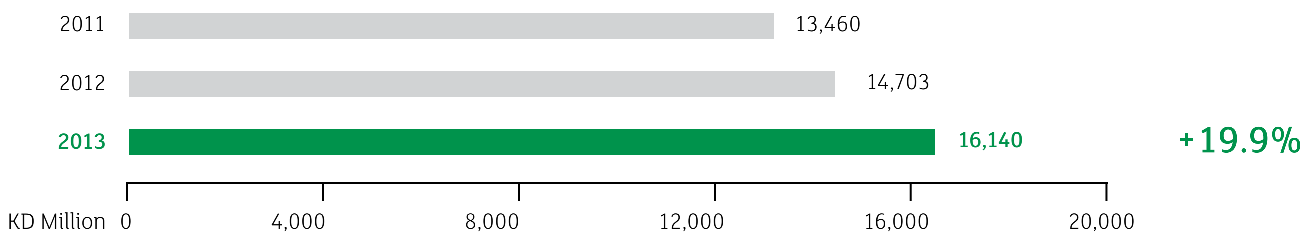
Net Profit Attributable to Shareholders (2011 - 2013)



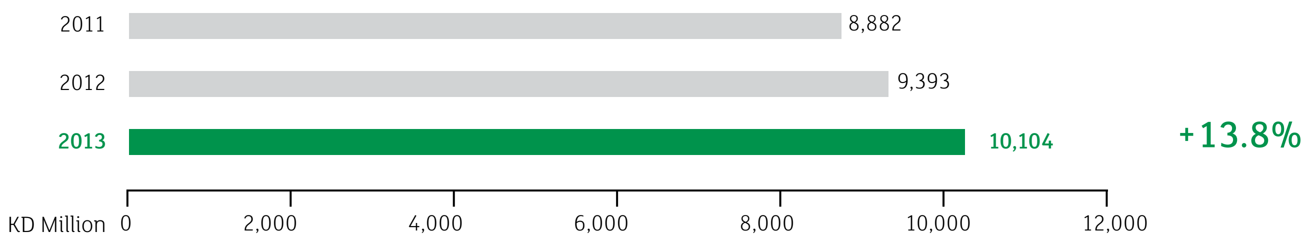
Total Operating Revenue (2011 - 2013)



Total Assets (2011 - 2013)



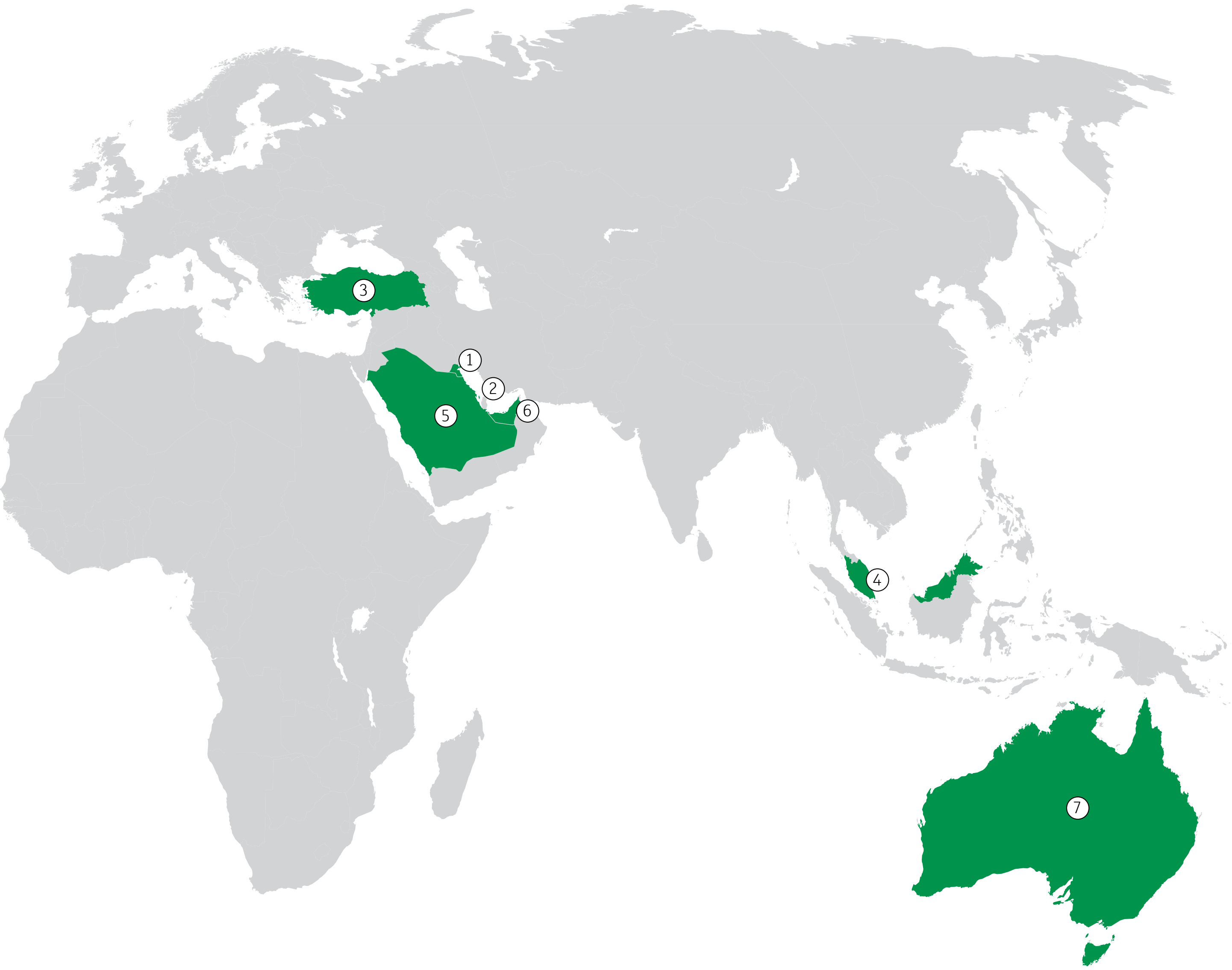
Total Deposits (2011 - 2013)



KFH Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group's banking network spans across four regions worldwide, with 355 branches, over 475 ATMs and more than 8,000 employees.



- Kuwait Finance House (KFH) was the first Islamic bank established in Kuwait in 1977. Today, KFH is one of the leading Islamic banking institutions in the world, and one of the biggest lenders in both the local and regional markets.
- KFH's largest shareholders include: Kuwait Investment Authority (Direct), Kuwait Awqaf Public Foundation (Direct), Public Authority for Minors' Affairs (Direct), The Public Institution for Social Security (Indirect).
- KFH (KSE: KFIN) is a publically listed company on the Kuwait Stock Exchange (KSE).

1. Kuwait Finance House K.S.C.P. - Kuwait
2. Kuwait Finance House B.S.C. - Bahrain
3. Kuwait Turkish Participation Bank - Turkey
4. Kuwait Finance House - Malaysia (Berhad)
5. Saudi Kuwaiti Finance House S.S.C.
6. Kuwait Turkish Participation Bank - Dubai
7. Kuwait Finance House - Australia (Representative Office)

Vision

To lead the international development of Islamic financial services and become the most trusted and sustainably most profitable Shari'a compliant bank in the world

Mission

Deliver superior innovation and customer service excellence while protecting and enhancing the interests of all our stakeholders

Values

Leadership and innovation..

Partnership and accountability..

In accordance with the principles of Islamic Shari'a.

Chairman's Statement

Praise be to Allah the Almighty and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and his companions.

Dear Esteemed Shareholders,

Alsalamu alykum warahmatu Allah wabarakatuh,,,

On behalf of myself and my fellow colleagues, members of the Board of Directors of Kuwait Finance House ("KFH" / the "Bank"), I am pleased to present the 2013 KFH Group Annual Report. KFH achieved positive results despite the continuous unfavorable economic conditions worsened by the weak growth in many countries and the ongoing political unrest in the region. Nevertheless, it would be fair to say that the year 2013 was a landmark year in KFH's record of achievements.

We were able, with Allah's blessings, to increase the capital of the Bank as per the resolution passed by the Extraordinary General Assembly on 24 April 2013. Furthermore, we surpassed the goals set to mitigate the weighted risks and comply with the Capital Adequacy Standards. We are also in a good position to respond to the Basel III Accord. This is in line with KFH's strategy for achieving sustainable success amidst the rapid and ongoing developments in the banking sector. This reflects KFH's strong financial position and its ability to cope with the global changes and crises while maintaining high standards of quality and excellence to KFH Customers. To this end, KFH has been well prepared to explore new horizons and take crucial decisions during the course of the year.

We have outlined our strategic direction since 2012 that would enable us to overcome the potential challenges that could affect the regulatory, economic and operational environment, and to adequately respond to the regulatory requirements, while ensuring customer centricity by catering to all their needs and exceeding their expectations. We strive to continue upholding leadership and excellence in everything we provide in order to attain distinct and sustainable performance.

We believe that our Shari'a compliant business model, solid financial position, efficient control systems, prudent risk management practices, on-going efforts of our Bank's Executive Management and sound investment decisions are key to ensure KFH continuous success and promotion to the most trusted and sustainably most profitable Shari'a compliant bank in the world.

KFH's strategy focused on leading global development in Shari'a compliant financial services, benefiting from the Transformation & Restructuring Program efforts, which was successfully completed towards the end of 2013, and expanding our services to our wide client base.

We dedicated our efforts to strengthen our risk management framework by adopting a set of initiatives that would help establish a mechanism for budgeting, determining the optimal asset allocation for investment activities through pursuing prudent divestiture from specific investments and consolidating KFH's portfolio under specialized companies. This was done by initiating three companies under the Investment function which are KFH Real Estate, KFH Investment and KFH Capital aiming to avoid the duplication of certain activities, expanding our strategic oversight, and pursuing income generating investment opportunities.

We also continued our policy to set aside adequate provisions to protect KFH against potential or unforeseeable risks abiding with our slogan to provide security and peace of mind for KFH Group. We will always adopt a perspective to achieve security and reassurance for KFH, control costs across the Group, whose ratio to revenue fell in 2013 as compared to the previous year, without compromising efficiency standards.

Since 2012, we developed a new global organizational structure for KFH, which provides stability, takes into account the applicable governance standards, enables the execution of objective growth plans, ensures integration among the Group's business units and activities, and streamlines procedures which have reflected in notable improvements in the majority of key revenue sources at the Group level as indicated by our 2013 financial results. We have been able, thanks to Allah, to realize a net profit of approximately KD 116 million, earnings per share of 32.69 fils and total assets of KD 16.1 billion, which represents a 10% increase over last year. Further, KFH clients' deposits grew by 8% to KD 10.1 billion as compared to last year, which were approximately KD 9.4 billion. These figures reflect a strong financial position given the difficult times that the local and global economies have been experiencing, during which the Group sought to safeguard KFH assets and attain best financial results.

In view of these financial results, the Board of Directors proposed the following:

1. Cash dividend of 13% and the distribution of bonus shares at 13%
2. Distribution of the profit from investment deposits and accounts as illustrated in Table 1 below

Table 1 illustrates the depositors' profit distribution in percentage

Account Type	2013	2012
"Al-Khumasiya" Investment Deposits	2.180%	2.147%
"Mustamera" Investment Deposits	1.962%	1.932%
"Al-Sedra" Investment Deposits	1.526%	1.503%
"Tawfeer" Investments Saving Accounts	1.308%	1.288%

The year 2013, witnessed significant efforts to comply with corporate governance requirements, which were crowned with the issuance of KFH's Corporate Governance Manual in compliance with the instructions of regulatory authorities.

In addition to the documented policies on corporate governance approved by the Board of Directors, KFH's strategies on corporate governance were drawn up to respond to all local and regional legal and regulatory requirements, and Shari'a principles, in the markets in which we operate. Furthermore, the necessary measures were taken to promote the culture of corporate governance within KFH Group and to apply best practices so as to carry out their functions responsibly. This will bolster not only the rights of shareholders but it will also protect the long term interests of the Group.

KFH takes a leading position in pioneering social and economic development in the State of Kuwait driven by its firm belief that it constitutes an integral part of our beloved country. We shoulder the responsibility of providing quality services in addition to launching initiatives for economic development and the welfare of society. As an emphasis of this role, we managed to launch the Third Sustainability Report for KFH, in accordance with GRI (Global Reporting Initiative) Sustainability Guidelines. The report summarizes the contributions made by KFH in making positive change in the areas where we operate and represents a part of the efforts put forth by KFH during the year in order to achieve sustainable growth.

As part of our social responsibility, several ambitious initiatives and programs have been implemented to support Kuwait Zakat House and other educational, rehabilitation, cultural and humanitarian organizations. During the year, KFH donated nearly KD 3.5 million in support of Zakat House charitable projects and activities. Furthermore, KFH played an active role in supporting and fostering the environment as well as supporting academic events and seminars.

KFH Credit Ratings & Global Awards

KFH, for the second consecutive year, maintained its prestigious international credit ratings issued by the leading international rating agencies as illustrated in Table 2.

Table 2 illustrates KFH's credit ratings in 2013

Rating Agency	Long Term	Short Term	Outlook
Capital Intelligence	A+	A-1	Stable
Fitch	A+	F-1	Stable
Moody's	A1	P-1	Negative
Standard & Poor's	A-	A-2	Negative

In 2013 KFH received a set of well-deserved awards as it received Kuwait's Best Islamic Bank of the Year from Euromoney and Asiamoney. It also won Best Islamic Financial Institution of the Year from Global Finance.

Emeafinance also accorded KFH many awards during the year including the 2013 Middle East Islamic Bank of the Year, the 2013 Kuwait's Bank of the Year and, the 2013 Kuwait's Islamic Bank of the Year. It also accorded KFH the Sovereign Sukuk of the Year Award.

The success and positive results that have been achieved in 2013 were by the grace of Allah the Almighty and to Him goes our thanks first and foremost.

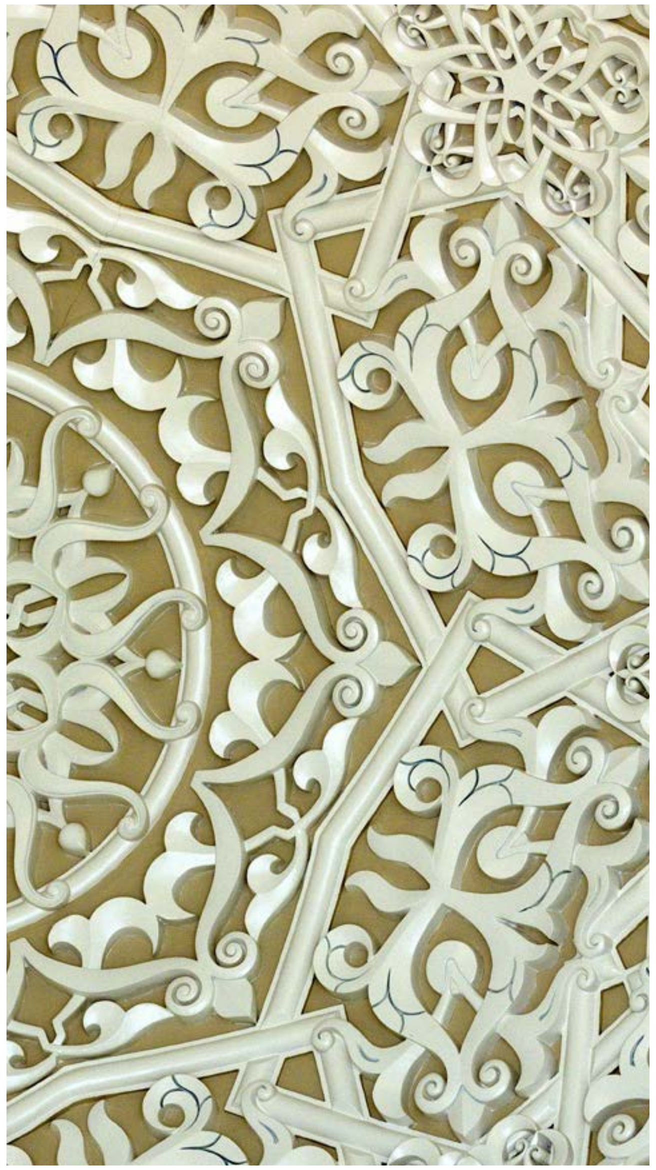
In conclusion, I am delighted to express on behalf of myself and the Board Directors, the deepest appreciation to H.H. the Amir of Kuwait Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, H.H. the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah and H.H. the Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah, and H.E. Governor of Central Bank of Kuwait as well as all regulatory authorities for their continuous support to the banking sector in the State of Kuwait.

We thank our shareholders for their ongoing support and confidence. We also thank our customers and suppliers for selecting KFH and its products and services, promising them to continue the course of development and attain best achievements and positive results. I cannot end without expressing sincere thanks to the Shari'a Supervisory Board of KFH for their distinguished efforts serving KFH's advancement and credibility.

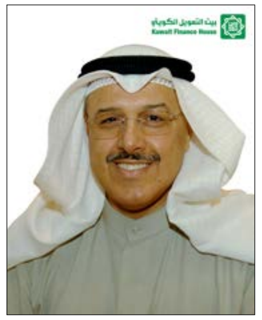
Finally, I would like to extend our thanks to the Executive Management team and all employees of KFH whom we consider our most valuable assets, for their dedication, efforts and positive approach to challenges that they faced and the results they have achieved.

Allah grants success,,,

Mohammed Ali Al-Khudairi
Chairman



Board of Directors



Mr. Mohammed Ali Al-Khudairi
Chairman of the Board

Chairman of the Board, since October 2012

Chairman of the Corporate Governance Committee

Mr. Al-Khudairi holds a higher diploma in Commerce from England.

Board Member of Kuwait Finance House (KFH) since 1981, Chairman of the Board of Human Investment Company from 1994 to 2000. Board Member of Gulf Finance and Investment Company (GFIC) since its establishment in 1981 until 2007. Furthermore, Mr. Al-Khudairi was a Board Member of (ITS) International Turnkey Systems from 1981 to 2000 and Dubai Islamic Bank (DIB) from 1987 to 1991.

Dr. Nabeel Ahmad Al-Mannae
Vice Chairman

Vice Chairman, since March 2011

Chairman of Board Risk & Assets Committee and Chairman of Board Transformation Committee

Dr. Al-Mannae holds a PhD in Monetary and International Economics, Miami University, awarded in 1987. He has a Master's Degree in Economics from Florida International University (FIU) awarded in August 1983. He holds a Bachelor Degree in Economics from Kuwait University awarded in 1981.

Dr. Al-Mannae has been Chairman of the Board of KFH Malaysia (Berhad) since September 2011 and has been Chairman of the Board and the Managing Director of Hayat Investment Company since 2009.

He assumed the post of Deputy Governor of Central Bank of Kuwait for 10 years until 2008 and has been an Executive Director of Monetary Policy at Central Bank of Kuwait from 1995 to 1998, and Manager of Economic Research Department at the Central Bank of Kuwait from 1992 to 1995.

Mr. Ali Mohammed Al-Elaimi
Board Member

Board Member and Representative of the Public Authority for Minor's Affairs (PAMA) since 2002

Vice Chairman of the Board Nomination & Remuneration Committee and Member of the Board Risk & Assets Committee

Mr. Al-Elaimi holds a Bachelor Degree in Accounting from Kuwait University awarded in 1980, and has completed a number of professional and academic courses in the banking sector. He is the Director General of PAMA (Public Authority for Minor's Affairs) at the level of Undersecretary, Board Member of Bahrain Islamic Bank, and Chairman of the Board of Al-Tanmya International Investment Company.

Mr. Saud Abdulaziz Al-Babtain

Board Member

Board Member since 1998

Member of Audit Committee

Mr. Al-Babtain holds a Bachelor of Business Administration (BBA) degree from Kuwait University awarded in 1986.

He has been Vice Chairman of Abdulaziz Saud Al-Babtian & Sons Group of Companies since 1991. He has been a Member of the Board of Boubyan Petrochemical Company (BPC) since 2000, and the Chairman of the Board of Al-Oula Fuel Marketing Company (Oula Fuel) from 2004 to 2010. He also worked within the Credit Department, at the National Bank of Kuwait in 1986.

Mr. Hamad Ahmad Al-Ameeri

Board Member

Board Member since 2012

Member of the Board Risk & Assets Committee, Member of the Board Nomination & Remunerations Committee

Mr. Al-Ameeri holds a Bachelor of Accountancy degree from Kuwait University awarded in 1984.

He is the Chairman of the Board of National Investments Company since April 2013 and had previously been its General Manager from 1999 to 2013. He has been a Board Member of Kuwait Syrian Holding Company (KSH) since 2002.

Moreover, Mr. Al-Ameeri is a Board Member of Gulf Cement Company, Dubai, since 2004 and of Fujairah Cement Industries, Fujairah since 2008.

He was responsible for the management of Domestic and Arab Investments in Wafra International Investment Company from 1996 to 1999, and was Deputy Manager of Domestic and Arab investments in Gulf Investments Company from 1984 to 1996.

He was a Member of the Boards of Coast Development & Investment Company since 1997 to December 2013, Gulf Investments Company, Saudi Arabia, from 2007 to 2011, National Real Estate Company (NREC) from 2004 to 2007, and Al-Mada Communications Company from 2000 to 2003.

Mr. Khaled Abdulaziz Al-Hasson

Board Member

Board Member and Representative of the Kuwait Investment Authority (KIA) since 2007

Vice Chairman of the Board Risk & Assets Committee, Chairman of the Board Nomination & Remuneration Committee

Mr. Al-Hasson holds a Bachelor of Business Administration (BBA) degree, majoring in marketing, from Kuwait University awarded in 1985. He is a Board Member of the Arab Investment Company, Kingdom of Saudi Arabia, since 2012, and of Gulf Cement Company, Dubai, since 2004. He has headed the Real Estate Department, Kuwait Investment Authority (KIA) since 2006.

Furthermore, he was a Board Member of the Moroccan-Kuwaiti Consortium for Development, Morocco, from September 2004 to May 2012, Kuwaiti Livestock Transporting and Trading Company from April 2001 to March 2007, Emirates Livestock and Meat Products Trading Company, UAE, from May 2004 to March 2007, Agricultural Food Products Company, Kuwait, from December 1996 to April 2000, Arab Industry and Mining Company, Mauritania, from March 1998 to November 2000, Kuwait-Algeria Investment Fund, Algeria, from March 1999 to September 2004, and Kuwait Small Projects Development Company (KSPDC) from November 1999 to April 2001.

Mr. Ahmad Abdullah Al-Omar

Board Member

Board Member and Representative of Kuwait Investment Authority (KIA) since 2007

Member of the Audit Committee, Member of the Board Transformation Committee

Mr. Al-Omar holds a Bachelor of Commerce (BCom), majoring in Accounting, from Kuwait University awarded in 1972.

He has been the Chairman of the Board of the Kuwaiti United Investment Company, Damascus, affiliated to Kuwait Investment Authority (KIA) since July 2008. He is the Head of the Office for Settlement of Loans Taken Over for the State's Account, Kuwait Investment Authority (KIA) since July 1999.

He served as a member of several Boards of companies inside and outside Kuwait, including "Societe Nationale Industrielle et Miniere" (SNIM) as representative of the Arab Company for Mining, Mauritania, from 2002 to 2007, Board Member of the Board of the Livestock Transporting and Trading Company,Chairman of the Investment Committee, as a representative of Kuwait Investment Authority (KIA) from 2001 to 2007, and Board Member of the Arab Mining Company as a representative of Kuwait Investment Authority (KIA) from 2000 to 2007.

He was the Chairman of the Board of the Agricultural Food Products Company, Kuwait, from 2000 to 2001, and acted as the Chairman of the Liquidation Committee of Al-Enmaa Investment Company, Bahrain, and Mines and Industry Company, Ajman, UAE, in 1986 and 1988 respectively.

Mr. Adel Abdul Muhsen Al-Subeih

Board Member

Board Member since 2006

Vice Chairman of the Audit Committee, Member of the Corporate Governance Committee

Mr. Al-Subeih holds a Bachelor of Accounting degree awarded in 1988 from the Faculty of Commerce, Economics and Political Sciences, Kuwait University.

He serves as the Chairman of the Board and Member of the Investment Committee at Gulf Investment House (GIH) since 2012-2011 and is Vice Chairman of Ajwan Gulf Real Estate Company since May 2011.

He has held a number of administrative and executive posts in the past. He has been the General Manager and the Chief Executive Officer of Amlak Real Estate Company (Reem) since 2003.

He was in charge of the Finance and Administration Department at Al-Enmaa Real Estate Company from 1996 to 2003 and assumed the post of Assistant General Manager of the Financial and Administrative Sector of the company from 1998 to 2003. He acted as the Chairman of the Board of Amlak Services and Real Estate Consultancy «Century 21» from 2008 to 2010.

Mr. Essam Saud Al-Rashid

Board Member

Board Member since 2002

Vice Chairman of the Corporate Governance Committee, Member of the Board Risk & Assets Committee

Mr. Al-Rashid holds a Bachelor of Business Administration (BBA) awarded in 1985 from Azusa Pacific University (APU), California, USA.

Currently, he is a Board Member of Saudi Insulated Block Company (SIBCO) since 2011 and of Saudi Lime Industry Company, Riyadh, since 1987.

He was a Board Member of Al-Madar Finance and Investment Company from 1996 to 2002. He also served as a Board Member of Salbukh Company, Kuwait, in 1986 for one year.

Mrs. Eman Mohammed Al-Humiedan
Board Member

Board Member and Representative of Kuwait Awqaf Public Foundation since 2011

Chairman of the Audit Committee, Member of the Board Transformation Committee

Mrs. Al-Humiedan holds a Bachelor degree in Computer and Mathematical Statistics, Faculty of Science, Kuwait University, awarded in 1981 with Accounting minor, Faculty of Commerce.

Currently, she is the Chairman of the Governmental Budget Committee, Awqaf Budget Committee and Procurement Committee at the Kuwait Awqaf Public Foundation.

She has also served as a Board Member of EYAS for Higher and Technical Education as a representative of Kuwait Awqaf Public Foundation from 2007 to 2013.

She has assumed the post of Acting General Secretary of Administration and Support Services at the grade of Assistant Undersecretary at Kuwait Awqaf Public Foundation since 2004 and Acting General Secretary of Kuwait Awqaf Public Foundation (Acting Undersecretary) from 2010 to 2011.

She was Director of Information Systems Centre at Kuwait Awqaf Public Foundation from February 1998 to December 2004.

She has served as a Member of the Board of Trustees of Islamic Economics Information Project, Unit of Islamic Economics affiliated to the Centre of Excellence at the College of Business Administration, University of Kuwait since 2008 for two years.

The Annual Report of Fatwa and Shari'a Supervisory Board 2013 Kuwait Finance House

To the respected KFH shareholders,

Assalamu alaykum warahmatu Allah wabarakatuh,

Praise be to Allah the Almighty and Peace and Blessings be upon our Prophet Muhammad (PBUH), his family and his companions.

We have reviewed and endorsed the policies, products, services and the activities that KFH had carried out in 2013. We have also conducted the necessary review to provide our opinion on KFH compliance with Shari'a rules and principles through the fatwa, resolutions and recommendations that we have issued.

To achieve this compliance assurance, the Fatwa and Shari'a Supervisory Board held 35 meetings during the year 2013, in which it had reviewed and endorsed samples of the contracts and agreements after obtaining the necessary information to issue its opinion. The Shari'a Control and Advisory Department conducted its Shari'a Audit on randomly selected samples of all operations and transactions of KFH with the shareholders, investors and others in accordance with the Annual Shari'a Audit plan for all departments. The Shari'a Board has also received the periodic reports that the Shari'a Control and Advisory Department has prepared about the Shari'a Audit process and operations, site visits and the compliance status of the process and implementation of the fatwa and resolutions issued by KFH Fatwa and Shari'a Supervisory Board.

We have also obtained all necessary information and clarifications to give us sufficient evidence to provide reasonable confirmation that KFH had complied with Shari'a rules and principles in all its operations that have been presented to the Fatwa and Shari'a Supervisory Board.

Through the process and steps that we followed to ascertain the compliance of KFH to the Shari'a rules, we confirm the following:

First: That the contracts and transactions which KFH had entered into during the financial year ending on 31 December 2013 as presented to us had complied with the Shari'a rules, principles and resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Second: That the profit distribution and loss bearing on the investment accounts are in compliance with the terms of our approval in accordance with the rules and principles of Shari'a.

Third: That all income that has been received from non-Shari'a compliant sources or by means prohibited by Shari'a have been cleansed and donated to charitable purposes.

Fourth: That the Zakat calculation has been carried out in accordance with the Companies' Zakat Manual issued by Kuwait Zakat House, and in accordance with the resolutions and recommendations of KFH Fatwa and Shari'a Supervisory Board.

Fifth: That the Shari'a Audit in 2013 on KFH activities and operations had observed some Shari'a non-compliance observations. The non-Shari'a compliant observations have been communicated to the respective departments for rectification and to avoid recurrence. The respective departments have responded positively and made the required rectifications.

Sixth: The Shari'a Board has observed that there was an income to KFH from its investment in VISA Inc. which resulted in an interest income amounting to KD 9,356. The Shari'a Board has decided that this income should be cleansed and donated towards charity purposes. The said amount has therefore been cleansed accordingly.

Peace be upon our Prophet Muhammad, his family members and companions and praise be to Allah, the Lord of the Universe.

Sheikh Professor Dr. Ajeel Jasem Al-Nashmi
Chairman

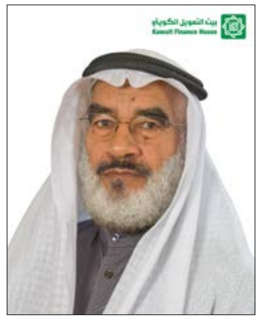
Sheikh Dr. Khaled Mathkour Al-Mathkour
Board member

Sheikh Dr. Anwar Shuaib Al-Abdulsalam
Board Member

Sheikh Professor Dr. Sayyid Mohammad Abdul Razzaq Al-Tabtabae
Board Member

Sheikh Dr. Mubarak Jaza Al-Harbi
Board Member

Fatwa & Shari'a Supervisory Board



Sheikh Professor Dr. Ajeel Jasem Al-Nashmi

Chairman of the Fatwa and Shari'a Supervisory Board

The former Dean of Faculty of Shari'a and Islamic Studies, Kuwait University, a member of the teaching board of the faculty, a member of the Fatwa Board of the Ministry of Awqaf and Islamic Affairs, a member of the Expert Committee of Islamic Jurisprudence Encyclopedia, an expert member representing the State of Kuwait at the International Islamic Fiqh Academy of the Organization of Islamic Conference in Jeddah, the President of the Association of Shari'a Scholars for the Arabian Gulf Countries, and a member of the Fatwa and Shari'a Supervisory Board for a number of companies and Islamic financial institutions.

Sheikh Professor Dr. Ajeel Jasem Al-Nashmi holds a PhD in Principles of Islamic Jurisprudence from Al-Azhar University (Egypt), 1977.

Sheikh Dr. Khaled Mathkour Al-Mathkour

Member of the Fatwa and Shari'a Supervisory Board

Professor of Comparative Jurisprudence (Fiqh Al-Muqaran) and Shari'a Governance (Siasah Al-Shar'iyyah) at the Faculty of Shari'a, Kuwait University, the Chairman of the Supreme Advisory Committee for the completion of the implementation Shari'a at the Amiri Diwan in Kuwait, a member of the Fatwa Board of the Ministry of Awqaf and Islamic Affairs, a member of the Expert Committee of Islamic Jurisprudence Encyclopedia, a representative member of Kuwait at International Islamic Fiqh Academy of the Organization of Islamic Conference, Jeddah, and a member of the Fatwa and Shari'a Supervisory Board for a number of companies and Islamic financial institutions.

Sheikh Dr. Khaled Al-Mathkour obtained his PhD in Comparative Jurisprudence (Fiqh Al-Muqaran) from Al- Azhar University, in 1978.

Sheikh Dr. Anwar Shuaib

Al-Abdulsalam

Member of the Fatwa and Shari'a Supervisory Board

The Chairman of the Fatwa and Shari'a Supervisory Board of Kuwait Finance House-Turkey (KTPB). He was the former Head of Department of Fiqh (Islamic Jurisprudence) and Usul Al-Fiqh (Principles of Islamic Jurisprudence) at the Faculty of Shari'a and Islamic Studies, Kuwait University, and a member of the Fatwa and Shari'a Supervisory Board for a number of companies and Islamic Financial Institutions.

Dr. Anwar Al-Abdulsalam obtained his PhD in Islamic Jurisprudence (Fiqh) from Al-Azhar University, in 1999.

Sheikh Professor Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtabae

Member of the Fatwa and Shari'a Supervisory Board

The former Dean of Faculty of Shari'a and Islamic Studies, Kuwait University, a member of the teaching board of the faculty, the Chairman of the Fatwa and Shari'a Supervisory Board of KFH-Malaysia, a member of Shari'a Board of Kuwait Zakat House and International Committee for the Contemporary Zakat Issues, a member of the Scientific Advisory Board of Kuwait University, and a member of the Fatwa and Shari'a Supervisory Board for a number of companies and Islamic Financial Institutions.

Sheikh Professor Dr. Mohammad Al-Tabtabae obtained his PhD in Fiqh from the Higher Institute of Judiciary at Islamic University of Imam Muhammad bin Saud in 1996.

Sheikh Dr. Mubarak Jaza Al-Harbi

Member of the Fatwa and Shari'a Supervisory Board

The Head of the Department of Comparative Fiqh and Shari'a Governance (Siasah Al-Shar'iyyah) at the Faculty of Shari'a, Kuwait University, and a member of the Fatwa and Shari'a Supervisory Board for a number of companies and Islamic financial institutions.

Sheikh Dr. Mubarak Al-Harbi obtained his PhD from the Faculty of Darul Ulum, Cairo University, in 2002.

Economic Overview 2013

First: Global Economic Developments

Global economic performance in 2013 was fluctuating. Despite the noticeable upward trend in the economic growth of developed countries, namely, the United States of America, Japan and the Euro Zone, which together make up half the size of the global economy, the pace of growth slowed down in emerging economies thus posing, a double challenge to the global economy in terms of the continued slowdown in some countries and the aggravating financial distress in other countries.

The US economy falls at the heart of these events. Domestic demand is still high with more job opportunities made available, although growth is progressing slowly. This is due to the intensified stress testing, uncertainty accompanying the fiscal reform endeavors, cut-down of expenditure and the continuing controversy over increasing the maximum debt ceiling. In October 2013, the US Federal Government entered a shutdown and curtailed most routine operations. The plans to get out of the stage of the quantitative easing and the low interest rates, increase the probability of high risks on the markets within the United States. It also will have subsequent adverse effects on recovery in the remaining parts of the world.

The International Monetary Fund (IMF) forecasted that the global economy would grow at 2.9% during 2013 compared to 3.2% in 2012, and forecasted a growth rate of 3.6% in 2014. As far as the developed countries are concerned, economic growth was forecasted at 1.2% in 2013 compared to 1.5% in 2012 and was forecasted to grow at 2% in 2014. Emerging economies were forecasted to grow at 4.7% in 2013 then increase to 5.4% in 2014.

Japan's economy is recovering amidst challenges to public finance coupled with a controversy over increasing the depreciation charge and applying a set of structural reforms to ensure a sustainable recovery of the economy.

Risks that might threaten the stability in Japan include the increasing sovereign debt and the excess government bonds acquisition in the banking system. The Japanese economic growth is forecasted to recede from 2% in 2013 to 1.25% in 2014 while the economic growth in China is seen to witness a slight slowdown from 7.5% in 2013 to 7.25% in 2014.

The major European countries showed early signs of recovery unlike some other European countries which continue to endure economic slowdown caused by inadequate competitive exports that would offset the decline in domestic demand and the continued uncertainty on the projected budgeting levels and the assets depreciation. The economic growth in the Euro Zone is forecasted to register 1% in 2014.

The unfavorable global economic conditions, high prices of raw materials and primary commodities and the global financial conditions have all contributed to slowing down the pace of growth in most countries.

To summarize the above, even though the recovery from the global financial turmoil, albeit very slow, at a time when the focus is currently on the economies of emerging markets, the turmoil has left a legacy that still exists, and the developed economies have not yet escaped its perils. The public and private debt is very high in some cases and continuation of the financial conditions is vague and uncertain.

The financial system restructure is underway and its final shape and the extent to which it may be viable for the future may not be determined so far. The unemployment rates are considerably high and pose a major challenge over many years to come.

Second: Economic Developments in the Middle East

According to estimates by the International Monetary Fund, growth in most countries of the Middle East and North Africa region in general was forecasted to increase from 2.3% in 2013 to 3.6% in 2014, and the average growth in the oil-exporting countries was forecasted to increase by around 2% in 2013 and would further increase to 4% in 2014, which will cause a contraction in the global demand amidst an increase in oil production by Saudi Arabia, Iraq and Libya.

In the meantime, it was forecasted that average growth rate would remain unchanged at 3% in 2013, while the oil-importing countries were forecast to witness a growth rate at 3% in 2014 which is the same rate recorded in 2013 in light of the uncertainty about the economic policies, negative investor sentiment and the political unrest.

The Kingdom of Saudi Arabia is forecasted to witness the highest growth rate in the Middle East region of 5.3% in 2014 compared to 4.2% in 2013, followed by the Kingdom of Bahrain which is forecasted to see economic growth of 4.2% in 2014 compared to 5.3% in 2013.

Third: Economic Developments in the State of Kuwait

The Kuwaiti economy maintained its steady pace of growth driven by the positive developments in the oil market, the growth of private consumption, and the slight rise in production quantities and stability of oil prices. The oil production is estimated at about 3 million barrels per day, a rate that is very close to the maximum production capacity of 3.2 million barrels per day. This, however, is forecasted to increase up to 4 million barrels per day in 2014. The actual economic growth rate was projected to record 4.5% in 2013 which is lower than the growth rate recorded in 2012 at 5.2%. Yet, the actual economic growth rate is forecasted to record an annual average that would hit 5% in 2014 propelled by the increase in foreign consumption, the increase in average wages, the continued implementation of the economic development plan, and the growing volume of development enterprises worth about 105 billion dollars.

The planned expansion of the airport at an estimate cost of 2.1 billion U.S. dollars and the planned construction of Al-Zour Electricity and Water Station at an estimate cost of 3 billion U.S. dollars are in the pipeline, in addition to the development and establishment of Al-Harir City and many other hospitals, roads and bridges.

The private sector's participation in the local economy was quite noticeable, and the volume of domestic credit also increased to value about KD 28.9 billion with an annual growth exceeding 8% and an annual increase of about KD 2.16 billion towards the end of 2013 accounting for a share of 80% of the domestic deposits which exceeded about KD 36 billion achieving an annual growth rate of 8.3% compared to the year 2012.

Though the development plan slowed down somewhat as a result of the political unrest and the widening circle of bureaucracy. However, the next phase of the plan is expected to take effect. This phase proposes the establishment of shareholding companies with 50% ownership to Kuwaiti citizens, to be tasked with the implementation of development projects worth about KD 12 billion, a value that is equivalent to 42.3 billion U.S. dollars, thus creating new job opportunities for Kuwaitis and building around 36,700 residential units by year 2017.

The issue of housing has triggered much controversy in the Kuwaiti society in 2013 when real estate appreciated noticeably as the value of the total real estate transactions recorded KD 3.99 billion in 2013 increasing by 19% over 2012. Private real estate transactions recorded around KD 1.95 billion in 2013 rising up at a slightly higher rate of half a percent compared to 2012. Investment in real estate transactions recorded KD 1.5 billion in 2013 soaring up by 26% compared to 2012. The trading value of commercial real estate recorded about KD 441 million soaring up by more than two-thirds estimated at KD 176 million equal to 66% compared to the value of KD 265 million reported during 2012.

The National Assembly sanctioned in April 2013 a bill that would allow for writing off the interest on loans granted to citizens in the period from January 2002 until March 2008 and waiving the interest accrued on such loans.

Despite the continuation of the expansionary fiscal policy over the medium term, the government is still looking into the size of expenditure on investment amidst the current growing increase in expenditures caused by the increasing value of wages.

Kuwait's foreign investments valued about 322 billion U.S. dollars at a time when the Kuwait Investment Authority (KIA) is penetrating emerging markets such as China, India and Turkey.

The Central Bank of Kuwait maintained the discount rate unchanged and the inflation rate was expected to remain at 2.8% in 2013 despite the drop in food prices. Yet the high level of wages would likely cause upward pressure on inflation in 2014 after the Central Bank of Kuwait had reduced the discount rate from 2.5% to 2% in October 2012.

Chief Executive Officer's Statement

The year 2013 was a remarkable year in KFH's history with the Bank achieving significant accomplishments, with the grace of Allah, while maintaining its leading position and stature. KFH grew its revenues and diversified its income sources locally and regionally, and achieved good operating profits, in spite of the continuing difficult operating environment locally and internationally during the year. The operating environment was also marred by sluggish economic growth, significant regulatory changes, shrinking government spending and the political turmoil across the Middle East.

The adverse repercussions of the global financial turmoil of 2008 continue to have an impact and we have a fair distance to cover until we reach the desired recovery and economic boom.

KFH has proved its ability to efficiently respond to crises. In such a troubled economic environment it was able to advance while maintaining sustainable earnings growth in six consecutive terms. This is seen as a milestone achievement and true reflection of the success of the "Transformation and Restructuring Program" which has been commended by most of the international rating agencies.

The ongoing development and specialized professional study of our business model is an essential step and a major reason that enabled us to maintain our leading position amid economic and legislative changes. As such, it increases the awareness of the strengths of KFH. After a comprehensive self-assessment, the business model of KFH has been transformed and a restructuring plan that meets our expectations and helps us achieve our ambitions has been approved, which led us to the design of our new organizational structure.

Under the guidance of the Board of Directors, KFH has adopted an ambitious program to carry out transformation and restructuring with the help of major global consulting firms. During the year, it managed to implement a series of initiatives aimed at strengthening our core business and directing resources to products and services that better meet the needs of our clients. In addition, we focused on investments for sustainable growth and returns, followed a more rigorous approach towards risk management, enhanced our balance sheet, increased capital and improved our efficiency and enhanced our competitive position in the local and international markets.

During 2011, KFH made strenuous efforts in the field of restructuring and developing the organizational structure. These led to increased vitality, innovation and creativity of human resources. It also improved resilience, the ability to adapt and change the business environment. This will encourage and develop individuals as well as attract competencies with global skills in order to introduce positive change in KFH and develop communication at the group level. This will also improve leadership techniques, develop organizational effectiveness, leverage operational efficiency and standardize business processes in accordance with clear procedures. This required designing new competitive salaries and incentive packages in line with the market, focus on performance based rewards and enhance the concept of accountability and responsibility.

These efforts have resulted in a significant improvement at the entire group level in the financial and institutional performance and we were then able, with the blessings of Allah, to generate strong returns after we focused on our areas of strength and our core business.

The transformation and restructuring efforts have proved to be fruitful since the program began in 2011 and was completed in 2013. This is something which is reflected in the improvement in financial indicators of KFH, where net profits witnessed growth by 45% compared to 2011. Return on total shareholders' equity has increased to 8.45% compared with 2.44% in 2011. Total assets in 2013 increased by 19.9% compared to 2011. Total deposits have continued to grow, increasing by 13.8% in 2013 compared to 2011, something which reflects the profound confidence of our customers and confirms our outlook to attain security and peace of mind.

In this difficult economic environment, KFH achieved significant progress while maintaining an improved quality of its credit portfolio. The percentage of non-performing financing at the group level has decreased to reach 4.37%, while it decreased at the Kuwait level to reach 3.73%. Appropriate precautionary provisions continued which decreased by 30% in 2013, as we aim to control and manage the risks for KFH Group.

We implemented our new five-year strategy for the period from 2012 until 2016, following our success in designing and developing our new organizational structure. Our endeavor through this strategy is to maintain our leadership in the Islamic financial services industry such that our business and services can reach a global level based on Islamic Shari'a principles, which constitute the main source of all our activities and business.

As part of our commitment to maintain the leading position we have achieved thus far, we have succeeded during the year to increase the capital of KFH by 20% in accordance with the capital plan, as part of the transformation and restructuring program. Also funds allocation and utilization were in accordance with the new strategic plan, something which is reflected in the adoption of the methodology and mechanism for funds transfer pricing within and between the parties of the group and increasing the capital adequacy ratio to 17.44% as KFH managed to increase the capital by about KD 319 million.

In 2013, we focused most of our attention on the effective use of the liquidity generated from the share capital increase and the increased deposits. Backed by our solid financial position and strong capital base, we injected funds into high quality investments amidst the limited available opportunities locally and internationally. We were, however, encouraged by the growing demand for Islamic finance which provided additional strength to KFH's solid financial and capital position.

Finally, thanks to Almighty Allah for what we have achieved in 2013 towards strengthening our leading position around the world. I am fully confident and hopeful that KFH is able to further reinforce its leading position in the years to come and to be the top Islamic bank in the world at all levels of new and innovative products and services.

Let me also take this opportunity to congratulate the executive management and employees of KFH on their effective role in positioning KFH in the lead. The well thought-out decisions of the management team have helped us overcome the challenges posed by the ongoing financial crisis. I would also like to thank the KFH Board of Directors and the honorable Fatwa & Shari'a Supervisory Board for their prudent opinion offered to the Executive Management.

Mohammed Sulaiman Al-Omar
Chief Executive Officer

Executive Management

Mohammed Sulaiman Al-Omar
Chief Executive Officer (CEO)

Date of Appointment: 1992

Mr. Al-Omar holds a Bachelor of Business Administration specializing in Business Economics awarded in 1986 from Chapman University, USA, and completed the Business Administration Program from Harvard Business School – USA (1988-1989).

He assumed several leadership posts at KFH. He was the General Manager from 2006 to 2008, and later assumed the position of the Chief Executive Officer (CEO) from 2008 until now.

Mr. Al-Omar held the positions of Deputy General Manager between 2004 and 2006, and as Assistant General Manager for the Investment Sector from 1999 to 2005. He also held the position of the Deputy Assistant General Manager of Investment Sector from 1997 to 1999.

He has been the Chairman of the Board of KFH-Turkey (KTPB) since 2000 to date and a Board Member and Chairman of the Audit Committee of KFH-Bahrain since 2004 until 2013.

He served as Board Member in a number of companies. He acted as the Chairman of the Board and the Managing Director of Muthanna Investment Company from 2004 to 2006. From 1999 to 2004 he was Board Member of Liquidity Management Centre, KFH Bahrain. He was Board Member of Franco Paris Real Estate Company from 1987 to 1992.

In 2003, he was the Chief Executive Officer (CEO) of Al-Manar Leasing and Investment Company.

Mohammed Nasser Al-Fouzan
Chief Retail Banking Officer

Date of Appointment: 1996

Mr. Al-Fouzan holds a High Banking Diploma awarded in 1990 from the Arab Institute for Banking Studies and a Bachelor degree in Business Administration (BBA) awarded in 1986, from Kuwait University. He completed the Executive Development Program at Wharton Business School, U.S.A. in 2001 and the Strategic Marketing Management at Harvard Business School, U.S.A. in 2006.

He is currently the Chief Retail Banking Officer since 2012.

He assumed various leadership posts at KFH. He was Assistant General Manager of the Banking Sector from 2004 to 2012, and the Deputy Assistant General Manager of the Banking Sector in 1996 to 2004. He joined KFH as a Department Manager in the Banking Sector in December 1996.

He assumed the post of Senior Manager of Branches Department at National Bank of Kuwait, London in 1995, and Director of its Corporate Banking Department from 1993 to 1995. He was the Chairman of the Board of K-Net between 2005 – 2008, and the Chairman of the Board of International Turnkey Systems (ITS) between 2008 – 2012, as well as a Board Member of Muthana Investment Company in 2012.

Anwar Bader Al-Ghaith
Chief Operating Officer

Date of Appointment: 2001

Mr. Al-Ghaith holds an Advanced Leadership Diploma awarded in 2008, from Harvard Business School, USA, and a Bachelor of Accounting awarded in 1997, from Kuwait University. He is a licensed Account Auditor by the Ministry of Commerce and Industry, Kuwait since 2010, and Certified Islamic Banker (CIB), awarded in 2011, by the General Council for Islamic Financial Services.

He is currently the Chief Operating Officer since 2012.

He assumed several leadership posts at KFH. He was Deputy Assistant General Manager from 2007 to 2012, Operations Department Manager from 2005 to 2007, and Manager of the Real Estate Portfolio at the Local Real Estate Department. He joined KFH as a Senior Accountant at the Local Real Estate Department in 2001.

He served as the Commercial Manager of one of the National Industries Group (NIG) companies. He started his career as an Accountant at the Bank of Kuwait and the Middle East in 1997, and later worked as a Tax Accountant at the Taxation Department at the Ministry of Finance, Kuwait from 1998 to 2000.

He has been the Chairman of the Board of International Turnkey Systems (ITS) since 2012, Board Member of Al-Salam International Hospital since 2012, Board Member of Al-Enmaa Real Estate Company since 2007, Chairman of the Board of Al-Raya Global Real Estate Company from 2008 to 2010, and a Board Member at the same company from 2005 to 2007.

Muhammad Said Abdel Wahab

Chief Financial Officer

Date of Appointment: 2002

Mohamed Said obtained his graduation as a Bachelor of Commerce- Accounting from Egypt in 1990; he is a CPA, Certified Public Accountant from the U.S.A. since 1995 with an active License number 25952 and also a CIA, Certified Internal Auditor from the U.S.A. as well since 1998.

He is currently the Chief Financial Officer since 2012

He has joined KFH management team in 2002 as a Financial Control Department Manager and ever since that time he assumed various leadership posts at KFH. He became Deputy Assistant General Manager in 2003 and Assistant General Manager- Financial Control in 2009.

He held the position of Chairman of Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) in the last term in addition to being a board member for more than one term.

He worked as the Chief Financial Officer and Chief Operations Officer from 1997 to 2002 at a leading retail, contracting and general trading shareholding company in the GCC region.

Before assuming the Finance, operations and Islamic banking duties, he worked as an External Auditor for, Ernst & Young and KPMG from 1990 to 1997.

He also was a board member of Liquidity Management House Company from 2009 to 2013 and a board member of International Turnkey System company from 2010 to 2013.

Dr. Paul Quigley

Chief Risk Officer

Date of Appointment: 2011

Dr. Quigley holds a PhD. in Finance awarded in 1997 from the University of Birmingham in the United Kingdom and Bachelor and Master's degrees in Finance, Treasury and Investment from Dublin City University. He was a Fulbright Scholar at the University of Illinois in Urbana-Champaign, USA.

He is currently the Chief Risk Officer where he joined Kuwait Finance House's Management Team as an Advisor in 2011.

Previously he was Chief Executive (designate) of the Institute of Bankers in Ireland. From 1999 to 2011 he served in various risk management roles at AIB Group, including as General Manager for Risk Measurement. Prior to this he led the Finance Faculty at Dublin City University and also worked in Government Departments of Finance and Internal Revenue in Ireland.

Shaheen Hamad Al-Ghanim

General Manager,
International Banking
Acting Chief Investment Officer

Date of Appointment: 2001

Mr. Al-Ghanim holds a Masters in Business Administration (MBA), awarded in 2008, from Maastricht University, and an Advanced Leadership Diploma from Harvard Business School, USA.

He is currently the General Manager of International Banking since 2012. He was Deputy Assistant General Manager at the Investment Sector in 2011, Manager of Financial Control in 2006, and Deputy Manager of Financial Control in 2004. He joined KFH management team in 2002 as Assistant Manager of Accounting and Manager of Accounting at the Financial Control Department.

He served as Assistant Financial Manager of The International Investor (TII) in 1999.

He was appointed as Chairman of the Board of KFH–Malaysia between 2007 – 2011. He is currently the Vice Chairman of KFH–Malaysia since 2011, Chairman of the Board of Ijara House – KFH–Malaysia 2007 to date, Chairman of the Board of Kuwaiti Manager Company – Kuwait 2006 to date, Board Member of KFH-Turkey 2006 to date, Board Member of Nakheel Real Estate Company – Kuwait 2003 to date, Board Member of Aref Group – Kuwait 2008 to date and Board Member of KFH Saudi 2009 to date.

Eng. Fahad Khaled Al-Mukhaizeem

General Manager, Strategy
and Corporate Affairs

Date of Appointment: 2001

Mr. Al-Mukhaizeem holds a Master's in Business Administration (MBA), and a Master's in Economics awarded in 2000, from Boston University, and a Bachelor of Arts in Economics from Tufts University, USA awarded in 1996. He also holds a Bachelor of Science in Chemical Engineering awarded in 1996 and an Advanced Leadership Diploma from Harvard Business School, USA awarded in 2008.

He is currently the General Manager of Strategy and Corporate Affairs since 2012. He is the Chairman of the Board of KFH Research Ltd. He has been in charge of Strategic Planning at KFH since 2008 and worked as the Manager of Marketing and Public Relations Department in 2007. He joined KFH as a Senior Economist in 2001, and later assumed the post of Banking Products Manager in 2003.

He has academic experience as a Teaching Assistant at the Department of Economics, Kuwait University in 1997. He began his career as an Investment Analyst in Boston, USA.

Peter Verhoeven

General Manager,
Wholesale Banking

Date of Appointment: 2013

Mr. Verhoeven was awarded a Master's degree in International Finance from the University of Dallas in 1979, and a Bachelor degree in History and Political Science from Dickinson College .

He is currently the General Manager of Wholesale Banking since 2013.

He was engaged as a consultant at KFH at the beginning of 2013.

Mr. Verhoeven has over 30 years of banking experience, having worked in Asia, Europe, the Americas and Middle East. Prior to joining KFH, he was an advisor to the CEO of Riyadh Bank and Chief Operating Officer at Bank Al-Bilad in the Kingdom of Saudi Arabia. Mr. Verhoeven also held senior regional executive (South East Asia and the Americas) and senior country management (Belgium, Singapore, Indonesia and Philippines) roles with Standard Chartered Bank, Citibank and Deutsche Bank. Mr. Verhoeven was also a Senior Credit Officer at Citibank.

Dr. Anwar Ahmad Al-Fuzaie

General Legal Counsel

Date of Appointment: 2007

Dr. Al-Fuzaie holds a Juris Doctor (J.D), awarded in 1987, from Montpellier College of Law, France. He holds a Master's Degree in Private Law from Montpellier University, and a Master's Degree of International Commercial Law from Nice University, as well as a Master's Degree of Business Administration from the International Studies Institute, Paris.

He is currently the General Legal Counsel of KFH. He was the Director of the Legal Department at KFH in 2007. He joined KFH as Assistant General Manager of the Legal Department from 1997 to 2000.

He was the rapporteur of the International Experts Committee, International Labor Organization (ILO) from 1998 to 2012, and the Vice Chairman of Muthanna Investment Company from 2002 to 2008.

He served as Member of the Advisory Board for Shari'a Control at the Capital Markets Authority from 2000 to 2003, Legal Counsel of State Audit Bureau from 2000 to 2002 in addition to his extensive experience in the legal area as he served as Manager of Legal Department of Kuwait Muncipality from 1991 to 1997. Additionally, he has long years of expertise in the academic work as he held the position of Assistant to the Deputy of Kuwait University Director for Research Affairs and where he worked as Teaching Assistant and an Assistant Professor at the Faculty of Law, Kuwait University. He participated the law profession as a registered lawyer with the Court of Appeal in Kuwait.

Matthew Welch

General Manager,
Wealth Management

Date of Appointment: 2013

He holds a Master's degree from the University of St. Andrews in Scotland and is an Associate of the Chartered Institute of Bankers in England.

He joined KFH as General Manager Wealth Management in 2013, following 28 years with HSBC. His previous roles included Head of Private Banking in the UAE, and Deputy Head of Private Banking in Saudi Arabia, plus broader experience across corporate, investment banking and strategic planning roles in other geographies.

Rubin Omar Fernandez

Chief Treasury Officer

Date of Appointment: 2012

He holds a Master's in Economics from Buenos Aires University, and a Master's in Finance, UCEMA, both from Argentina.

He is currently the Chief Treasury Officer since 2013. He was appointed Advisor to the Chief Executive Officer at the beginning of 2012.

He developed his professional career, primarily, with Citibank, New York as Senior Vice President of Treasury Capital Markets & Banking, Vice President of Emerging Markets Sales & Trading and Vice President at Citibank, Argentina.

Before joining KFH, he was Director at Societe Generale, New York.

Sami Mohammed Al-Dakhil

General Manager,
Information Technology

Date of Appointment: 1992

He holds a Bachelor degree in Computer Science from the University of North Carolina, USA, awarded in 1986.

He is currently the General Manager of Information Technology since 2013.

He held various leadership posts at KFH which included serving as the Deputy Assistant General Manager of Information Technology in 2006, Manager of the Systems Advisors Unit in 2004, and Manager of Information Systems as Deputy Head of the Department from 1999 to 2004 and as the Manager of the Systems Projects in 1997. He joined Kuwait Finance House team as Systems Analyst in 1992, and later worked as a Project Manager in 1996.

He started his career as a Systems Analyst between 1986 and 1992 at Burgan Bank, Kuwait.

Abdulwahab Essa Al-Rushood

General Manager,
Kuwait Treasury

Date of Appointment: 2002

He holds a Bachelor degree in Mathematics and Computer Science from the College of Western Oregon, USA, awarded in 1987.

He became the General Manager of Kuwait Treasury at Kuwait Finance House in 2013, and served as the Head of the Money Market Traders, then was promoted to the position of Head of Treasury Department in 2005. He began his career in Kuwait Finance House as the Senior Trader in 2002.

He held various positions at Gulf Bank in the period between 1988 and 2002 until he was appointed as Senior Trader.

Ziad Abdullah Al-Omar

General Manager, Human Resources
and General Services

Date of Appointment: 2013

He holds a Bachelor degree in English Literature from Kuwait University, awarded in 1986.

He is currently the General Manager, Human Resources and General Services since 2003.

He worked as Group HR Director at Zain Telecom between 2011 and beginning of 2013, and had served as Chief Regulatory Officer at Wataniya Telecommunications in the period between 2002 and 2011. He held various positions until he served as General Superintendent of Compensation and Benefits at Kuwait National Petroleum Company from 1986 to 2002.

Abdullah Mohammed Abu Al-Haous

General Manager, Operations

Date of Appointment: 2012

He holds a Bachelor of Business Administration degree from Kuwait University awarded in 1987.

He is currently the General Manager of Operations since 2012

He worked as the Chief Operations Officer (COO) at Warba Bank between 2011 and 2012, and earlier worked for the National Bank of Kuwait between 1994 and 2011 until he became the Deputy GM Operations. He also worked as Senior Supervisor of Operations at Bank of Kuwait and the Middle East between 1992 and 1994. He began his career as a Data Analyst in Gulf Bank from 1987 to 1992.

Management Discussion & Analysis

Annual Report 2013
Management Discussion & Analysis

Management Discussion & Analysis

First: KFH's Major Achievements in 2013

KFH's business model as well as its products and services are focused on its customers. 2013 was a remarkable year in KFH's history with the Bank achieving significant accomplishments despite the difficult operating environment, which was mainly due to the efforts of KFH's employees. And after the Transformation and Restructuring Program, KFH's activities continue to develop in order to meet the needs of its customers.

Retail Banking Services

KFH offered a wide range of new products and services to reinforce its competitive edge in the market and provide multiple options to its customers. The Gold Account, a unique product, was offered for the first time in Kuwait. It targets customers who wish to trade in precious metals with the opportunity to own the purest gold ingots known worldwide with a purity of 99.9% and high quality standards through a safe bank account.

In the area of financing products, KFH launched new products to finance the customers' needs for medical treatment and education. The medical and therapeutic product, offered for the first time by KFH, is designed to cover the expenses of medical treatment and services.

With regards to education finance, apart from launching "Jameati Account" product and taking into consideration the growing needs of our customers, we have successfully launched a unique product that allows customers to finance the cost of education at schools, colleges and universities on monthly installment basis.

As part of the consolidation between the Bank's branches and the activities of the Commercial Sector under the Transformation and Restructuring Program implemented during the past year, special attention was focused on revamping consumer financing in the State of Kuwait by injecting more than KD 790 million contributing to reinvigorating the local economy. With this, KFH's financing portfolio of commercial activities has hit a record target. We also inaugurated 6 new branches.

During 2013, KFH launched the "Customer Care Program" where a new business model was introduced with the aim to provide excellent services to our customers. The program seeks to strengthen cross-selling and is based on the automated measurement of customer satisfaction with the services provided to them. Application of the program started in the Faiha branch and will be extended to the rest of the branches.

KFH maintained its leading position in financing the automotive sector and providing car rental services. Sales turnover in both types of leasing (operating lease and finance lease with the promise of ownership) for individual and corporate clients increased significantly, providing proof for the viability of this business.

During 2013, KFH maintained the continued growth in the area of credit cards utilizing state-of-the-art technologies in launching a new service "Wave and Transfer," which allows holders of Al-Ousra Card to make the transfer from the principal cardholder to the supplementary cardholder.

In the area of electronic banking services, KFH won H.H Sheikh Salem Al-Ali's Information Award as the best technological commercial project particularly in relation to the services showcased at KFH Online and KFHTrade. Opening bank deposits in Kuwaiti Dinars using ATMs is a newly introduced service that constitutes a huge leap in customer service as it operates 24/7, noting that KFH has a network of 313 ATMs which were upgraded during 2013 to allow customers to issue SWIFT wire transfers and change the PIN code of their smart cards.

KFH took significant strides during the year towards the development and growth of the call center along with KFH Online, especially using cell phones and SMS, to notify customers about their credit card bills, and enable them to pay their loan installments through all the available channels including the branches, KFH website, ATMs, smart phones and other automated and organizational solutions such as the new Customer Relationship Management (CRM) system being used by KFH.

Wealth Management & Private Banking

Based on KFH's new strategy, our customer services have improved. The business of wealth management has been restructured as a new service on top of the updated organizational structure. This gives priority to customers in private financial services to benefit from available international investment opportunities, real estate portfolios and enable them to identify and receive benefits from such international opportunities. We expanded the scope of the consultancy services to clients, keeping them abreast of the latest developments in the banking sector both locally and internationally.

In addition, we were able to make exceptional profits through divesting some of the portfolios of our Private Banking customers. We also launched a new real estate finance service that would allow customers in private banking services and "Premier Customers" in Turkey to get the financing they need to own properties in Turkey in a swift and convenient manner in coordination with KFH Turkey.

Wholesale Banking Services

During the year, KFH's efforts were concentrated on improving the asset quality and the credit portfolio quality and mitigating risk exposure. KFH introduced a new system tailored for the purpose of credit analysis of the corporate sector that would contribute to analyzing risks more effectively, help select clients and to extend facilities to them. The Wholesale Banking function has since been reengineering and redeveloping its activities through the application of the new automated system.

The new Corporate Call Account is focused on our individual and corporate clients and is tailor-made for high return accounts.

In the field of credit services, highly experienced and exceptionally professional staff members were hired. Our corporate banking team managed to establish and offer new credit options to large, medium and small sized enterprises in various economic sectors. These new credit product offerings fully accommodate the assessment and rating requirements and are in line with the vision and recommendations of Risk Management.

KFH implemented a strategy aimed at improving the returns from the real estate portfolio by exiting from low yield real estate, developing vacant lands and improving sustainable profits. KFH also exited from some real estate portfolios to take advantage of their high market prices during the year and achieved rewarding profits for depositors and shareholders.

KFH also continued in its policy to expand economic and real estate awareness and monitor the changes in markets by issuing a new monthly real estate bulletin and a monthly report on banking deposits and finance sector. These, along with the quarterly local real estate report, were widely welcomed by clients interested in monitoring the economic and real estate conditions.

Operations

Within the framework of the Transformation and Restructuring Program which KFH implemented during 2013, the operations included three different activity lines: Operations Management, Information Technology, and Human Resources.

1. Operations Management

In view of the fast evolving operating environment, KFH found it imperative to provide newer and innovative banking services for individual and corporate customers alike. To this end, Operations exerted greater effort in line with the newly established goals. Operations played a significant role by providing support services to business functions and re-engineering their business processes, and by assisting KFH customers by working directly with them.

In response to the requirements of the new organizational structure, and for the purpose of updating the related policies and procedures based on the principle of accountability, we successfully developed the procedures manuals and updated all KFH policies, which were then approved by the Board of Directors. We also designed the work procedures to ensure that the performance indicators comply with the new procedures, and put in place a new change management system that complies with the new policies and procedures.

Thanks to the efforts made by the Operations team in conducting tests on the automated systems to verify the soundness of their implementation. Operations have also participated in the preparation of the Automated Procedures Manual and revised the Terms and Conditions and conducted the necessary tests. These systems are expected to provide more efficiency to KFH's different operations.

Furthermore, the Operations team also administered the subscription process of the capital increase by reviewing the subscription forms received from the branches, addressed customer queries, and maintained coordination with the Kuwait Clearing Company. These efforts were crowned by the successful administration of the subscription process within the scheduled date.

The Operations team was also able to accommodate the best international standards in the Operational Risk Management, enabling KFH to achieve the highest degree of control and safety of the operations carried out.

2. Information Technology (IT)

The IT function, through its new position after the restructuring, was able to offer a set of high-tech banking products and services so as to provide safer IT systems and ensure the best quality.

The IT function has worked on the re-launch of the upgraded version of the E-banking solutions related to Corporate Banking (IBS automated system), in collaboration with ITS, which is one of the best applications of electronic banking, and contributes to the improvement, development and acceleration of the services provided to wholesale customers.

The IT team has made various improvements in order to keep pace with the business requirements using the latest technologies available. With the provision of technical support to enable customers to make transfers to external accounts of beneficiaries of other banks or internal KFH customers through the use of ATMs, and now customers can change the PIN codes of their smart cards through the ATMs.

Non–KFH clients can also access KFH Online to pay the financing installments and recharge their prepaid credit cards.

IT also launched KFH Finance Online via smart phones which included standing orders for account holders and standing instruction for credit card holders.

3. Human Resources (HR)

Human Resources at KFH are a key and active component in the overall performance system. Human Resources embarked on carrying out job placements within the framework of the restructuring program. KFH recently attained the "GCC Excellence Award" by the GCC Ministers of Labor for its active role in the job localization process. KFH realized that the nature of work, business expansion and the aspiration to build on experiences and prepare new generations necessitate development of its existing staff and attracting talent from global markets to contribute to the development of the business. Yet, the national labor force shall be given the top priority as the highly-qualified Kuwaitis have contributed great accomplishments in the economy, in general, and in Islamic banking in particular. They have proven high performance capabilities and openness to bear responsibility. It is worthwhile to note that Kuwaitis constitute nearly 61% of the total labor force at KFH.

In another key development, HR developed the Succession Policy and carried out a series of 250 training workshops which benefited 1,892 employees by offering 6,615 training opportunities.

Treasury

The Treasury function sought to provide support services and solutions for Treasury and Investments by providing a set of tools and international investments. It contributed to a short–term sovereign Sukuk program with A1 rating. This program is worth USD 3 billion issued by the IILM. KFH's contribution in this program was as a Primary Dealer.

As part of KFH's efforts to develop the money market among Islamic banks, the Treasury developed credit lines for new highly rated banks for better risk allocation along with maintaining prudent balance in order to achieve the highest return on investment. Several agreements were drafted and Murabaha and credit lines were developed between KFH and Islamic banks in the region.

The Treasury function continued to inject more investments in the high–yield low–risk Islamic finance Sukuk resulting in our investments in the government market accounting for 50% of Sukuk investment. KFH prides itself of being one of the most important market makers in this promising market and seeks to establish a secondary market for Sukuk trading in cooperation with prestigious international banks.

International Banking & Investment Subsidiaries

2013 was a landmark year in the growth of the international banking function in spite of the global recession owing to KFH's implementation of a number of strategic exits from investments and the formation of three specialized companies, "KFH Real Estate", "KFH Investment", and "KFH Capital".

The International Banking function has been established with the aim of having a specialized division and working group to be responsible for monitoring operations outside Kuwait including the banking subsidiaries, the overseas finance operations, and KFH's relations with the financial institutions.

These efforts were materialized by the International Banking function arranging a 5–year international syndicated lease transaction worth USD 500 million in favor of Sharjah Electricity & Water Authority (SEWA) in conjunction with Gulf International Bank (GIB). Tribute is paid to KFH for its great success in marketing the deal and receiving subscription forms that by far exceeded the required size of the transaction.

KFH extended a 5–year public finance worth USD50 million to Sharjah Finance Department.

KFH was mandated to arrange 5–year finance worth USD115 million benefiting a recognized and leading Middle Eastern steel manufacturer located in the Kingdom of Bahrain.

As far as international presence is concerned, KFH reinforced its far–reaching presence in the international and regional emerging markets. KFH marks a historic legacy in several markets including the Turkish, Malaysian and Bahraini markets in addition to the KSA.

During 2013, KFH Turkey increased its share capital to TR 1.7 billion as part of the expansion strategy adopted by KFH Group. KFH Turkey extended its presence in the European market when it inaugurated its first branch in Germany.

With the view to extend its customer reach, KFH Turkey expanded its network to include 266 branches in different regions of Turkey by the end of 2013. KFH Turkey has successfully arranged a Murabaha deal worth USD 275 million involving more than 12 regional and international banks from 9 countries.

In line with KFH's overall strategy, KFH Malaysia put in place its new strategy which started to reap its fruits of success and accomplishment through the enhancements made to its quality of assets and profitability. MARC Rating Agency rated KFH Malaysia AA+ / MARC-1 with a stable outlook in 2013.

KFH Malaysia has been inaugurating new branches and providing competitive services and products within the emerging Malaysian market which KFH Malaysia regards as the gateway to the other regional markets such as China and the other emerging Asian countries.

Emphasizing on KFH's leadership in the Islamic financial services industry, KFH Bahrain, in collaboration with the Government of the Kingdom of Bahrain, played a major role in the establishment of Diyar Homes Project believed to be the largest mega real estate project in the Kingdom of Bahrain. It provides suitable housing for the moderate income category. All units comprising the first phase of the project were sold when the project was launched.

The Saudi Kuwaiti Finance House, based in Riyadh, marks the first venture of KFH in the Kingdom of Saudi Arabia (KSA), as a wholly–owned company of KFH Group. It offers innovative finance solutions based on Islamic Shari'a principles in addition to a wide range of investment products and consultancy services that are in line with its culture, values and principles.

Such great successes and accomplishments by the grace of Allah, have been a fruitful outcome of the sincere efforts exerted by all staff members in KFH who have contributed their experiences and competencies towards the interest of KFH. Since its inception, KFH realized the significance of its human resources and committed itself to enhance their efficiencies through ongoing training and development of its employees, focusing emphasis on quality over quantity, building-highly qualified and creative national banking professionals, and offering the opportunity for the participation of women in all banking businesses in a Shari'a compliant environment that accommodates our culture and traditions.

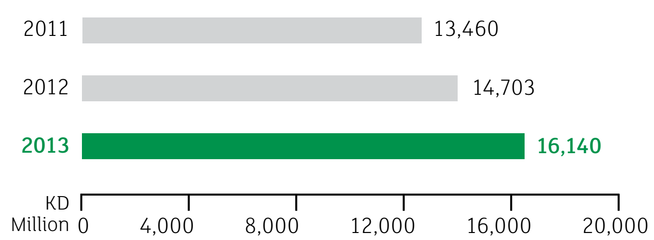
Second KFH's Financial Performance in 2013

This Management Discussion and Analysis (MD&A) is presented to enable readers to assess changes in the financial condition and operating results of KFH Group for the year ended December 31, 2013, compared with previous years. This MD&A should be read in conjunction with our audited Consolidated Financial Statements and related Notes for the year ended December 31, 2013. Unless otherwise indicated, all amounts are expressed in Kuwaiti Dinars (KD) and have been primarily derived from the Bank's annual Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) and other applicable regulatory requirements.

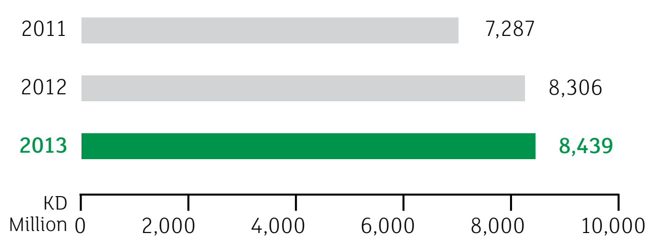
KFH is Kuwait's largest Islamic bank and one of the largest Islamic banks globally, benefitting from a sound franchise in both corporate and retail banking. KFH has large market shares captive in Kuwait, exceeding 20% during the last three years. KFH's total assets registered positive growth rates even during the peak of the financial crisis, supported by positive financing growth especially in key international banking markets.

For the last three years ending on 31st December 2013, KFH's total assets expanded at a compounded annual growth rate (CAGR) of 8.8% per annum, reaching to KWD16.1bln as at end-2013. In 2013 alone, total assets rose by 9.8% y-o-y. KFH's robust assets growth in the past three years was supported by strong financing growth, which saw total financing rising by a three years CAGR of 7.4% per annum reaching to KWD8.4bln as at end-2013.

Total Assets (2011-2013)

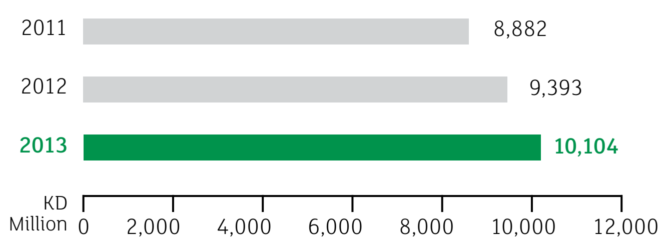


Total Financing (2011-2013)



KFH has a significant retail presence in Kuwait, capturing one of the largest deposits market shares among domestic peers. KFH has been successful in gathering customer deposits in recent years through branch expansion and new products and services, and has been a key beneficiary of recent government grants to Kuwaiti nationals that have been deposited in the banking system. A large proportion is non-profit, which provides an important source of low cost funding. KFH's total deposits were expanded by a CAGR of 9.7% per annum for the last three years, reaching to KWD10.1bln as at end-2013. In 2013, total deposits grew by 7.6% y-o-y.

Total Deposits (2011-2013)

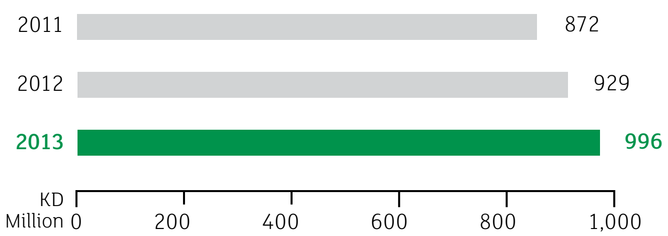


Growth Indicators Comparison (2011-2013)

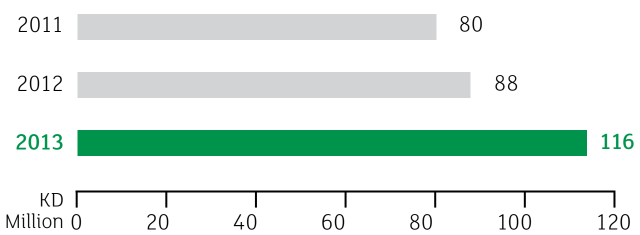
KFH Key Indicators	2011	2012	2013
Total assets (KWD mln)	13,459.8	14,703.3	16,139.8
Yearly assets growth %	7.3%	9.2%	9.8%
Total financing (KWD mln)	7,287.3	8,306.4	8,438.8
Yearly financing growth %	6.9%	14%	1.6%
Total deposits (KWD mln)	8,881.8	9,392.7	10,104
Yearly deposits growth %	16.1%	5.8%	7.6%

KFH's net profit attributable to shareholders and distribution to depositors stood at commendable levels post the global financial crisis. In 2013, KFH's net profit attributable to shareholders climbed higher to KWD115.9mln, an increase of 32.1% y-o-y. Contributing to net income growth during the year include a 7.3% y-o-y growth in total operating revenue to KWD996.2mln in 2013 (2012: KWD928.8mln), as well as a 10.9% y-o-y decline in impairment charges to KWD223.8mln (2012: KWD251.3mln).

Total Operating Revenue (2011-2013)



Net Profit Attributable to Shareholders (2011-2013)



Net Profit Attributable to Shareholders & Distribution to Depositors (2011-2013)

Profitability Indicators	2011	2012	2013
Total operating revenue (KWD mln)	872.1	928.8	996.2
Net profit to shareholders (KWD mln)	80.3	87.7	115.9
Distribution to depositors (KWD mln)	152.7	171.1	172.0
Earnings per share(fils)	28.02	26.47	32.69

Distribution to depositors inched higher to KWD172mln in 2013 vs. KWD171.1mln in 2012. KFH's returns on deposits remained the highest in Kuwait for a second year in 2013, significantly above the average interest/ profit rate for a 12-month time deposit account, according to the latest data provided by the central bank. KFH's distribution on deposits in 2013 were: 2.180% for five-year deposit "Khumasiya", 1.962% for continuous deposits "Mustamera", 1.526% for "Sedra" deposit and 1.308% for saving investment accounts "Tawfeer".

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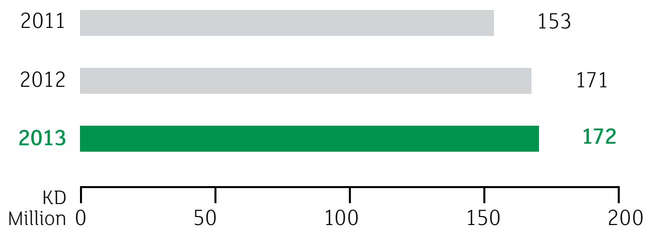
Distribution to Depositors (2011-2013)

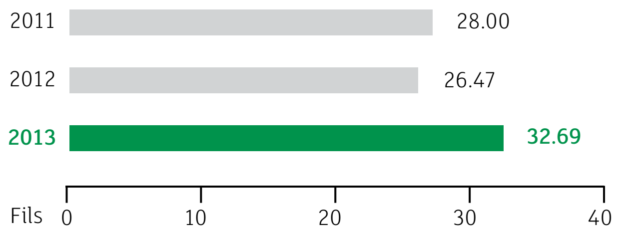


KFH's Depositors Distribution (2011-2013)

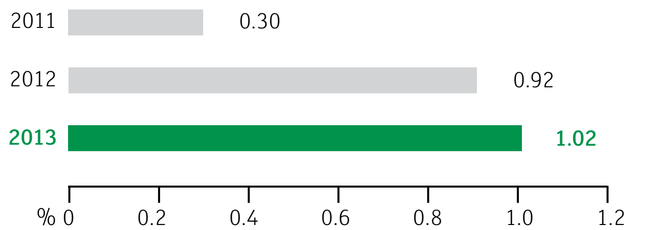
Description	2011	2012	2013
"Khumasiya" Investment Deposits	1.920%	2.147%	2.180%
"Mustamera" Investment Deposits	1.728%	1.932%	1.962%
"Sedra" Investment Deposits	1.344%	1.503%	1.526%
"Tawfeer" Savings Accounts	1.152%	1.288%	1.308%

As such, earnings per share were higher at 32.69 fils in 2013 vs. 26.47 fils in 2012. KFH's return on asset, return on shareholders' equity and return on total equity were higher at 1.02%, 8.04% and 8.45% respectively in 2013 vs. 0.30%, 6.53% and 2.44% respectively in 2011.

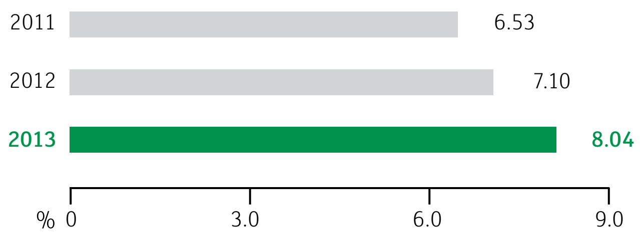
Earnings Per Share (2011-2013)



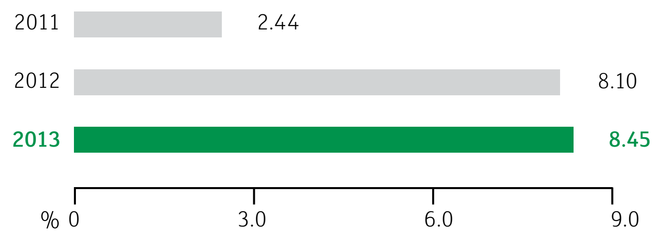
Return on Assets (2011-2013)



Return on Shareholders' Equity (2011-2013)



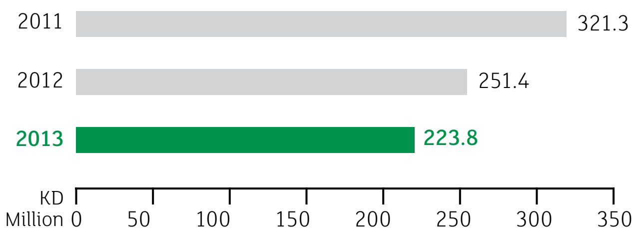
Return on Total Equity (2011-2013)



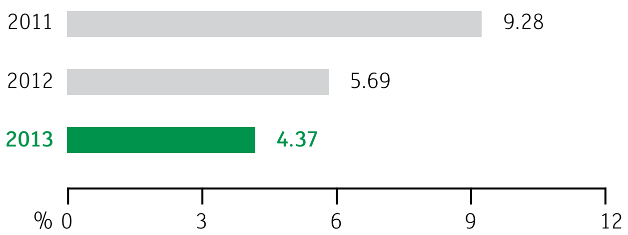
Impairment charges were lower at KWD223.8mln in 2013, a decline of 11% y-o-y. During 2011-2012, KFH's impairment charges were high as the management was cautious and prudent in providing for non-performing facilities/ investments that could potentially arise during these years. Impairment charges reached to a record high of KWD321.3mln in 2011. In 2012, impairment charges fell by 21.8% y-o-y to KWD251.4mln and to KWD223.8mln in 2013.

KFH's management has been aggressively managing asset quality in the past two years, with NPFs showing significant improvement in 2012 and 2013. NPF ratio (cash financing facility after excluding rescheduled deals) stood at 4.37% as at 2013, down from 9.28% in 2011.

Provisions (2011-2013)



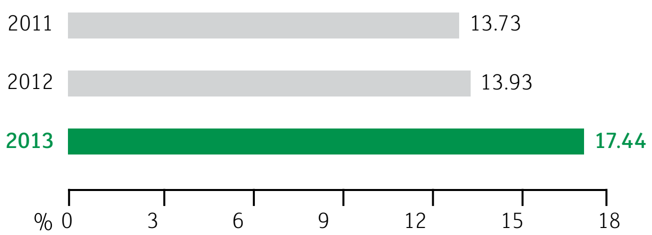
Non-Performing Financing Ratio (2011-2013)



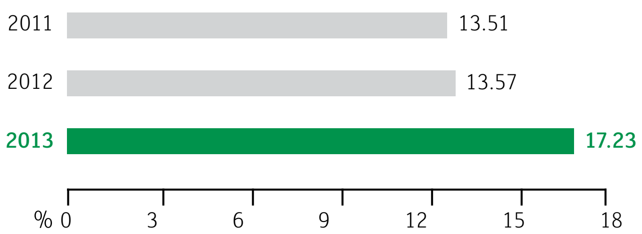
KFH's profitability has remained at commendable levels post the financial crisis. This was despite meagre loan growth in the overall banking industry as no new projects were being implemented in recent years. KFH has sufficient capital, backed by strong support from its shareholders. KFH's capital levels were high, with capital adequacy ratio being significantly above the CBK's minimum requirement of 12.0%. Despite capital raising activities by most Kuwait banks during and post the financial crisis, KFH was the only Kuwaiti bank that has yet to raise additional capital, until recently (June 2013). Amidst such challenging operating environment, this reflects KFH's solid financial positions and its ability to support expansion through revenues generated.

In 2013, KFH saw a good opportunity to raise capital when the economy rebounds and market sentiment improves. KFH's capital increase was oversubscribed by 156%. This reflects the trust of shareholders in KFH, and underlines the Group's ability to achieve superior results. Consequently, total shareholders' equity reached KWD1.7bln as at end-2013, an increase of 30.2% from end-2012. KFH's capital adequacy ratio reached 17.44% as at end-2013 vs. 13.93% as at end-2012, while Tier 1 ratio was higher at 17.23% vs. 13.57% as at end-2012. The increase in capital will be channeled to projects that cement market share, such as reinforcing the Group's presence through new branches in various areas.

Capital Adequacy Ratio (2011-2013)



Tier 1 Ratio (2011-2013)



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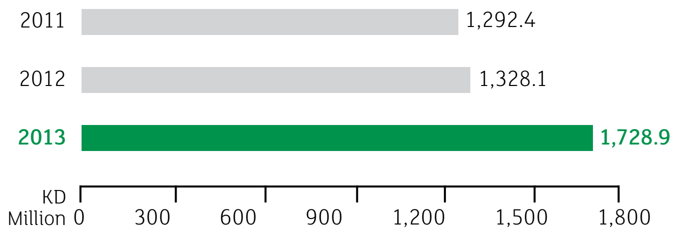
Total Shareholders' Equity (2011-2013)



KFH's Capitalization (2011-2013)

Capitalization	2011	2012	2013
Tier 1 ratio	13.51%	13.57%	17.23%
Capital Adequacy Ratio	13.73%	13.93%	17.44%
Shareholders' equity (KWD mln)	1,292.4	1,328.1	1,728.9

2014 Outlook

The domestic operating environment continues to improve and the overall outlook is turning more positive. We have started to witness some acceleration in the tendering, award and execution of some of the large projects as the government seemed more determined to advance the execution of the development plan. Premised on this, we expect positive loan growth in 2014 backed by the implementation of government projects. Kuwait's banking system will continue to be funded primarily by deposits, as Kuwaiti banks have access to government and quasi-government placements, allowing banks to manage deposits according to lending opportunities.

Corporate **Governance Report**

Introduction

KFH operates according to the corporate governance rules and guidelines in place in the State of Kuwait and the instructions of the Central Bank of Kuwait in this regard. The Nomination, Remuneration and Governance Committee was established pursuant to the Board of Directors meeting decision taken in its Meeting No. 7 held on 1 August, 2011. However, in the Board of Directors Meeting No. 43 held on 11 February, 2013, the Governance Committee was separated from the Nomination & Remuneration Committee to carry out its tasks separately and has therefore embarked on carrying out its activities in its first meeting held on 28 February, 2013.

The Governance Committee was mandated to oversee the development of specific arrangements and provide the necessary consultancy and assistance to help the Board of Directors fulfill its regulatory obligations relating to the appropriate governance practices through providing a set of guidelines on corporate governance and playing a leading role in drawing up the policies of governance.

It is imperative that KFH meets its corporate governance obligations and implement all the mandatory requirements imposed by the Central Bank of Kuwait. In this context, the Corporate Governance Manual of KFH and its subsidiaries has been prepared and published on KFH's website, and the compliance of the involved parties is monitored.

KFH has also set up an independent internal committee named Zakat & Community Service Committee that is directly reporting to the CEO with the aim to reinforce KFH's social responsibility believed to constitute an essential part of its business.

Furthermore, KFH developed a set of policies and procedures on the disclosure of material information to stakeholders, and put in place a new remuneration policy, the approved policies also included the Code of Conduct and Ethics for the members of the Board of Directors, officers and staff.

KFH also adopted the Disclosure Policy which incorporates all quantitative and qualitative disclosures as well as the disclosure of material information in accordance with the requirements and instructions of the Central Bank of Kuwait, the Kuwaiti Companies Law, and instructions of the Capital Markets Authority and the rules of the Kuwait Stock Exchange with the aim to ensure the reliability of the information disclosed by KFH particularly with regard to corporate governance. In addition, the Conflict of Interests Policy was also drafted and adopted to maintain the highest levels of transparency and objectivity with regard to the finance extended to the related parties. KFH also adopted a policy on the transactions by related parties and a policy on whistleblowing.

KFH developed a comprehensive policy that would regulate the relationship with related parties and protect KFH's interests.

In general, KFH took the lead in the application of various aspects of the principles and standards of corporate governance, and is readily abiding by any newly introduced standards. The development of a number of related policies and procedures is underway.

Corporate Governance requirements are covered in the annual report as follows:

Major Shareholders

Name	Shareholding	Country	No. of Shares	% of Shareholding
Kuwait Investment Authority (KIA)	Direct	Kuwait	923,078,498	24.08%
Public Authority for Minors Affairs (PAMA)	Direct	Kuwait	401,912,185	10.48%
Kuwait Awqaf Public Foundation	Direct	Kuwait	279,694,363	8.29%
Public Institution for Social Security (PIFSS)	Indirect	Kuwait	230,776,482	6.02%

1. Board Responsibilities

The Board of Directors shall bear the overall responsibility of KFH including the development of the strategic goals, risk strategy, sound governance principles, and the application and oversight of the proper application of these goals and principles besides the responsibility of overseeing the executive management including the CEO.

The Board of Directors shall be fully responsible for KFH's operations and sound financial position, as such the Board shall confirm compliance with the Central Bank of Kuwait's requirements, protect the interests of the shareholders, depositors, creditors, employees and other stakeholders and related parties. In this context, the Board shall ensure that KFH is being managed prudently and in line with the relevant laws and instructions and KFH's policies in place.

2. Composition of the Board of Directors

In accordance with the Articles of Association of KFH, the Board of Directors shall consist of ten members elected by the General Assembly through a secret ballot. The Directors' term of office shall be three years and a member of the Board of Directors may be re–elected for a similar term. The current Board of Directors consists of the Chairman, the Vice Chairman and eight Directors who duly represent the legal quorum needed for forming the Board Committees in accordance with the sound governance principles set by the Central Bank of Kuwait.

Role of the Chairman

Given the significance of this role, Chairman of the Board shall ensure proper functioning of the Board, maintain mutual trust among the members of the Board, and ensure that the decision–making process is based on sound grounds and accurate information and exchange viewpoints among the members of the Board. He shall further ensure timely reporting of sufficient information to the members of the Board and shareholders.

The Chairman shall play a major role in maintaining constructive relationship between the Board and the Executive Management and ensure KFH has sound governance principles in place.

3. Relationship between the Board and the Executive Management

KFH maintains cooperation and clear segregation of duties, functions and powers between the Board of Directors and the Executive Management and thus satisfies a key requirement of the sound corporate governance. As such, the Board shall take responsibility for guidance and leadership, while the Executive Management shall take responsibility for drawing up and implementing the strategies and policies approved by the Board. The Board shall also ensure that the Executive Management has been monitoring the strict compliance with the policies which prevent or restrict the activities or relationships that might contradict and compromise sound principles of corporate governance such as the Conflict of Interests Policy, Related Party Transactions Policy and the Remuneration Policy.

4. Organizing the Business of the Board

The Board of Directors held 18 meetings during the year; more than four meetings in each quarter of 2013. The Board meetings are held when deemed necessary, and the convened Board meetings exceeded the regulatory requirements of corporate governance which should not be less than 6 meetings during the year and not less than one meeting per quarter. The decisions recorded in minutes of meetings were binding and constituted as part of KFH records.

The Chairman of the Board holds talks with the Executive Management on the important topics proposed on the agenda of meetings of the Board, and provides the members of the Board with the necessary data and information at an adequately sufficient time before the meetings of the Board for taking the necessary decisions. The Secretary of the Board records the Board's discussions, members' suggestions and the results of the voting cast during the meetings. The powers and responsibilities of the Chairman and the members of the Board of Directors are documented in writing in accordance with the applicable laws and regulations.

5. Meetings of the Board of Directors and their Attendance

Schedule of Number and Names of Board Members and their Attendance at Committee Meetings

Name	Dates of Meetings held during 2013																		% Attendance
	January 14	February 11	March 11	March 20	April 4	April 10	May 9	May 13	June 19	July 8	July 29	September 16	September 30	October 8	October 21	November 18	December 9	December 24	
Mohammed Ali Al-Khudairi (Chairman)	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Nabeel Ahmed Al-Mannae (Vice Chairman)	√	√	√	√	√	√	√	√	√	√	√	√	-	√	-	√	√	√	89 %
Ali Mohammed Al-Elaimi	√	-	√	√	√	√	√	√	√	√	√	√	√	√	√	√	-	√	89 %
Hamad Ahmad Al-Ameri	√	√	√	√	-	√	√	√	√	√	√	√	√	√	√	-	√	√	89 %
Saud Abdulaziz Al-Babtain	-	-	√	-	√	-	√	√	-	-	√	-	√	√	√	√	√	-	56 %
Essam Saud Al-Rashed	√	√	√	√	-	-	√	√	√	√	√	√	√	-	√	√	√	√	83 %
Adel Abdul Muhsen Al-Subih	√	√	√	√	√	-	√	√	-	-	-	√	√	√	√	√	√	√	78 %
Eman M. Al-Humiedan	√	-	√	√	√	√	√	-	√	√	-	-	√	√	√	√	√	-	72 %
Ahmed Abdullah Al-Omar	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100 %
Khaled Abdulaziz Al-Hasson	√	√	√	√	√	√	√	√	-	√	√	√	√	√	√	√	√	√	94%

(√) Attended the meeting (-) Did not attend the meeting

6. Board Committees

KFH's Board of Directors, during its current tenure, has set up four standing Board Committees to assist in carrying out the duties and responsibilities of KFH, which is considered appropriate to oversee the diversified activities of KFH where all the members of the Board of Directors take part in these committees. These Board Committees include:

6.1 Audit Committee

The Board Audit Committee is composed of four Board members including the Committee's Chairman and Vice-Chair. The Audit Committee held 11 meetings during 2013; the Audit Committee holds its meetings as often as may be deemed necessary or at the initiative of the Committee's Chairperson or upon the request of any of the other two Committee members.

The Committee is responsible for the oversight of the following:

- The integrity of the Bank's financial statements;
- The overall financial reporting and disclosure control process;
- The systems of internal accounting and financial controls;
- The internal audit function (including responsibilities and budget);
- The annual independent audit of the Bank's financial statements;
- Selecting, appointing, rotating and evaluating the performance of External Auditors;
- The Bank's compliance with legal and regulatory requirements; and
- Reviewing the reports issued by the Shari'a Audit Unit.

The Committee has full access to Bank information, records, properties and personnel and it has the right to invite, through the official channels, any executive officer or Board member to its meetings.

The Committee evaluates the performance of the Head of Internal Audit annually and specifies his remuneration; and it convenes meetings, at least once annually, with the external and internal auditors without the presence of the executive management.

The responsibilities of the Audit Committee do not discharge the Board or the executive management from monitoring the sufficiency of the Bank's internal controls systems.

Schedule of Number and Names of Board Audit Committee Members and their Attendance at Committee Meetings

Name	Meeting Date in 2013											% Attendance
	January 13	January 28	February 5	April 9	April 29	June 5	June 7	August 20	October 7	November 11	December 18	
Eman Mohammed Al-Humiedan (Committee Chairman)	√	√	√	√	√	√	√	√	√	√	√	100%
Ahmed Abdullah Al-Omar	√	√	√	√	√	√	√	-	√	√	√	91%
Saud Abdulaziz Al-Babtain	-	√	-	-	√	-	√	√	√	-	-	45%
Adel Abdul Muhsen Al-Subeih	√	√	√	√	√	√	-	√	√	√	√	91%

(√) Attended the meeting (-) Did not attend the meeting

6.2 Nomination & Remuneration Committee (NRC)

The major role of the Nomination & Remuneration Committee (NRC) is to assist the Board of Directors in meeting its obligations related to selecting qualified individuals for the membership of the Board and the Executive Management, set out selection criteria for the membership of the Board Committees, and provide reasonable assurances to the Board of Directors regarding the effectiveness, efficiency, accuracy and soundness of the remuneration policy and practices in place and assurances that the remuneration policy is in line with the strategic objectives of KFH. The membership of the Nomination & Remuneration Committee shall be contingent upon the approval from the Board of Directors and must be based on specific selection criteria. The Nomination & Remuneration Committee shall consist of three non-executive members from the Board of Directors inclusive of the Chairman of the Committee. The Nomination & Remuneration Committee held 11 meetings during 2013 in the framework of carrying out its duties and responsibilities. Major functions of the Nomination & Remuneration Committee include the following:

- Drawing up and submitting the Remuneration Policy to the Board of Directors for approval and monitoring its application.
- Conducting periodic review of the Remuneration Policy, or as and when requested by the Board of Directors, and making recommendations to the Board of Directors for amending or updating the Remuneration Policy.
- Conducting periodic evaluation of the adequacy and effectiveness of the Remuneration Policy to accomplish the stated objectives of the Policy.
- Providing the necessary recommendations to the Board of Directors regarding the remuneration package, incentives, salaries, stock options, retirement arrangements and the end of service gratuity of the non-executive directors, Chief Executive Officer (CEO) and the staff reporting directly to the CEO and the Executive Management, in addition to carrying out any other task related to the regulatory requirements.
- Reviewing and approving the total annual bonuses payable to employees upon the recommendation of the CEO including arrangements for bonuses associated with the employee stock option scheme that is based on the annual performance reviews, and institutional agreements, and other factors.

Schedule of Number and Names of Board Nomination & Remuneration Committee Members and their Attendance at Committee Meetings

Name	Dates of Meetings during 2013											% Attendance
	January 9	February 6	March 13	April 10	April 25	May 9	May 30	July 15	November 4	December 2	December 30	
Khaled Abdulaziz Al-Hasson (Committee Chairman)	√	√	√	√	√	√	√	√	√	√	√	100%
Ali Mohammed Al-Elaimi	√	√	√	√	√	√	√	√	√	√	√	100%
Hamad Ahmad Al-Ameri	√	√	√	√	√	√	√	√	√	√	√	100%

(√) Attended the meeting (-) Did not attend the meeting

6.3 Risk & Assets Committee

The major role of the Risk & Assets Committee is to assist the Board of Directors to properly establish the risk management framework and assist in the decision–making process with regard to the disposal of KFH's assets either through credit agreements or the conclusion of investment deals. Membership at the Risk & Assets Committee shall be by appointment from the Board of Directors based on the criteria set up by the Nomination &Remuneration Committee. The Risk & Assets Committee consists of five members of the Board of Directors including the Chairman and the Vice Chairman whose membership in the Committee must coincide with their membership in the Board of KFH. The Risk & Assets Committee held 13 meetings in the framework of carrying out its functions during the year.

The Risk & Assets Committee takes the following responsibilities:

- Verify KFH's risk management capabilities and ensure effectiveness of the risk programs in place.
- Ensure the appropriateness of risk appetite and identify the major risks that may face KFH.
- Review credit, real estate and investment activities as per the authority matrix to verify the level of compliance with criteria to grant credit, investment, policies and procedures, KFH Group Risk appetite framework as well as Capital plan requirements and its distribution framework. It also has the right to veto, sole right of refusal and establish conditions and undertakings necessary in case such criteria are not satisfied. It may report its recommendations to the Board to take the necessary decisions.
- Review the adequacy of the risk management practices at least once a year.
- Ensure that the Executive Management is assessing and managing risks associated with internal and external parties.
- Keep abreast of the new regulatory instructions in the financial markets and the amendments to the accounting standards and the other developments.
- Provide advice to the Board of Directors on the current and future risk strategy and appetite of KFH, and supervise the Executive Management's application of this strategy.
- Ensure proper establishment of the risk management framework at KFH including the risk strategies, risk appetite, risk policies, procedures, tools and methodologies.

The Risk & Assets Committee has the authority as per the Authority Delegation Matrix to carry out the credit, real estate and investment activities on behalf of the Board of Directors including but not limited to:

- Oversee the application of the set policies and objectives in relation to all the investment, credit and real estate activities.

- Review and verify the soundness, accuracy and diversity of KFH's investments.
- Review that actual performance of the financial portfolios, and figure out the necessary corrective actions in case the results are unsatisfactory.
- Review the risk assumptions and the assumptions pertaining to returns on assets at least once a year.
- Review and verify the amounts payable to KFH as commissions and retainers in return for the services offered to customers.

The Risk & Assets Committee reviews the Risk Management's structure, duties and accountabilities, and the Chief Risk Officer submits reports directly to the Chairman of the Risk & Assets Committee.

Schedule of Number and Names of Board Risk & Assets Committee Members and their Attendance at Committee Meetings

Name	Dates of Meetings during 2013													% Attendance
	January 7	February 4	March 4	April 8	May 6	June 3	June 24	July 4	September 2	September 29	November 21	November 26	December 16	
Nabeel Ahmed Al-Mannae (Committee Chairman)	√	√	√	√	√	-	√	√	√	√	√	√	√	92%
Khaled Abdulaziz Al-Hasson	√	√	√	√	√	-	-	√	√	√	√	√	√	85%
Essam Saud Al-Rashed	√	√	√	-	√	√	√	-	√	√	√	√	√	85%
Ali Mohammed Al-Elaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Hamad Ahmad Al-Ameri	√	√	√	√	√	√	-	-	√	√	-	√	-	69%

(√) Attended the meeting (-) Did not attend the meeting

6.4 Corporate Governance Committee

The Corporate Governance Committee is primarily tasked with assisting the Board of Directors in supervising compliance with the sound corporate governance practices and developing and updating the Corporate Governance Manual of KFH. The Board of Directors appoints the members of the Corporate Governance Committee based on the criteria set by the Nomination & Remuneration Committee. The Corporate Governance Committee consists of three members of the Board of Directors including the Chairman of the Committee and their membership shall coincide with their membership on the Board of KFH. The Corporate Governance Committee held 6 meetings during the year 2013.

The Corporate Governance Committee carries out the following tasks:

- Develop and update the Corporate Governance Manual of KFH and monitor compliance to the same by all stakeholders.
- Review and assess the adequacy of KFH's policies and practices on corporate governance.
- Review and assess the adequacy of the Code of Conduct and Ethics at KFH as well as the internal policies and monitor implementation of the same.
- Review the sufficiency and adequacy of the provisions included in KFH's Articles & Memorandum of Association, and propose the necessary amendments thereto.
- Review the important issues related to shareholders.

Schedule of Number and Names of Board Corporate Governance Committee Members and their Attendance at Committee Meetings

Name	Dates of Meetings Held during 2013						% Attendance
	February 28	May 30	June 17	September 12	October 23	November 17	
Mohammed Ali Al-Khudairi (Committee Chairman)	√	√	√	√	√	√	100%
Essam Saud Al-Rashed	√	√	√	√	√	√	100%
Adel Abdul Muhsen Al-Subeih	√	√	-	√	√	√	83%

(√) Attended the meeting (-) Did not attend the meeting

Annual Report 2013
Corporate Governance Report

Board of Directors Statement on the Internal Control Systems

Internal Control Systems

The Board is responsible for approving and reviewing the effectiveness of the Bank's system of internal control, for the purpose of ensuring effective and efficient operations, quality of internal and external reporting, internal control, and compliance with laws and regulations. Senior Management is responsible for establishing and maintaining the system of internal control designed to manage the risk of failure to achieve the Bank's objectives. The system of internal control can only provide reasonable but not absolute assurance against the risk of material loss.

The Board has approved the Bank's organization structure consistent with the Bank's strategy and activities, job descriptions with detailed roles and responsibilities, and formal policies and procedures for the banking functions and processes. Such policies and procedures determine the duties and responsibilities of each function, the authorities and reporting lines on different management levels in a way that realizes dual control and segregation of duties in order to avoid conflict of functions. The Board regularly reviews the policies and controls with Senior Management and internal control functions (including Internal Audit, Risk Management and Compliance) in order to determine areas needing improvement, as well as to identify and address significant risks and issues. The Board also ensures that the control functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

Additionally, the Senior Management had taken the necessary steps to implement the new corporate governance instructions issued by the Central Bank of Kuwait (CBK) in June 2012. The steps include updating existing corporate governance documents, creating new documents as well as other actions necessary to fully implement the CBK instructions before the implementation deadline of 30 June 2013.

The effectiveness of the internal control system is reviewed regularly by the Board and the Board Audit Committee, which also receives reports of reviews undertaken by the Bank's Internal Audit Department. The Board Audit Committee reviews the management letters issued by the external financial auditors and holds periodic meetings with them. Additionally, the Board Audit Committee reviews the report on Accounting and Other Records and Internal Control System issued by the external auditor (other than the financial auditors). The external auditor's opinion in this respect is included in the Annual Report.

The Senior Management has assessed the effectiveness of the internal control system as of 31 December 2013, and concluded that it is adequate to provide reasonable assurance regarding the achievement of the Bank's objectives.

Independent Auditor's Opinion on the Internal Control Systems

The Board of Directors

Kuwait Finance House K.S.C.

P.O. Box 24989, Safat 13110

Kuwait

20 January 2014

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated 28 January, 2013, we have examined the accounting and other records and internal control systems of Kuwait Finance House K.S.C. ('the Bank') which was in existence during the year ended 31 December 2012.

We covered the following areas of the Bank:

- Corporate Governance
- Financial Securities Activities
- Investment Sector
- Banking Sector
- Finance Sector
- Commercial Sector
- Information Technology
- Operations Department
- Support Services Sector
- Financial Control
- General Control Environment
- Anti-money Laundering
- Risk Management & Compliance
- Legal Department
- Internal Audit Department
- Marketing & Public Relations
- Strategic Planning Department
- Fatwa and Shari'a Department
- Clients' Complaints Unit

In addition to the above, we have also examined the accounting and other records and internal control systems of the following financial subsidiaries of the Bank:

- Kuwait Finance House, Bahrain
- Kuwait Finance House (Malaysia) Berhad
- Kuvyet Turk Participation Bank
- Muthana Investment Company
- Aref Investment Company
- KFH Private Equity
- Liquidity Management House
- KFH Financial Services
- Saudi KFH

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Corporate Governance Report

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 10 January, 2013 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003 and guidelines relating to corporate governance issued by the CBK on 3 May, 2004. We have also followed up to ascertain the procedures taken by the Bank to resolve and address matters reported in the previous reports.

As members of the Board of Directors of the Bank, you are responsible for establishing and maintaining adequate accounting and other records and internal control systems, taking into consideration the expected benefits and relative costs of establishing such systems. The objective of this report is to provide reasonable, but not absolute, assurance on the extent to which the adopted procedures and systems are adequate to safeguard the assets against loss from unauthorized use or disposition; that key risks are properly monitored and evaluated; that transactions are executed in accordance with established authorization procedures and are recorded properly; and to enable you to conduct the business in a prudent manner.

Because of inherent limitations and internal control system, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that management information and control procedures may become inadequate because of changes in conditions or that the degree of compliance with those procedures may deteriorate.

In our opinion, having regard to the nature and volumes of its operations, during the year ended 31 December 2012, the accounting and other records and internal control systems, in the areas examined by us, were established and maintained in accordance with the requirements of the Manual of General Directives issued by the CBK on 15 June 2003 the guidelines realting to corporate governance issued by the CBK on 3 May, 2004 and letter issued by CBK on 10 January 2013, with the exception of the matters set out in the report submitted to the Board of Directors on 25 June 2013.

Furthermore, the Bank has established a process of quarterly follow-up on reported exceptions to ensure that corrective actions are being taken to rectify the control weaknesses and gaps identified during the course of the Internal Controls Review.

Yours faithfully,

Qais M. Al-Nisf

License No. 38 "A"

BDO Al-Nisf & Partners

Remuneration Report

Remuneration Policy

KFH's Remuneration Policy is in line with its strategies and objectives and the Kuwaiti Labor Law in the private sector, and also incorporates all the requirements of the CBK Corporate Governance Instructions issued in June 2012. The employees' remuneration includes both fixed and variable components which include their salary, short-term and long-term incentives. The policy is designed to attract, retain and competitively reward those individuals with experience, skill, values and behaviors in order to achieve the Bank's overall goals.

Rewarding employees is directly linked to the Bank's short and long term performance. It also aligns the components of the remuneration packages with the Bank's long-term risk appetite. The policy has mechanisms in place to control the total remuneration based on the financial performance of the Bank, and in the case of poor performance, implementing a clawback mechanism in order to safeguard the Bank's interests.

The Bank's Board of Directors, with the assistance of the Nominations and Remuneration Committee, approves and modifies the Bank's remuneration policy and its design, and periodically reviews the process of its implementation and effectiveness to ensure that it is operating as intended.

Remuneration Components

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade in the Bank and the job function as well as market practice. The employee remuneration components are:

1. Basic salary

2. Benefits and allowances

The salaries reflect the individuals' skills and experience and are reviewed annually in the context of annual performance assessment. The salary packages are periodically benchmarked against comparable roles in other banks. They are increased, where justified, by role change, increase in responsibility or where justified by the latest available market data. Salaries may also be increased in line with local regulations.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels. In the beginning of the year, the staff and their superiors plan and document the annual performance goals, required competencies and personal development plans for the staff. At the annual performance appraisal interview, the superiors of the staff and the reviewers evaluate and document performance against the documented goals. Decisions on adjustment of the employee's fixed salary and on performance-based incentives are made on the basis of annual performance review.

Other benefits like annual leave, medical leave and other leaves, medical insurance, annual ticket, and allowances are provided on the basis of individual employment contracts, local market practice and applicable laws.

Remuneration Disclosures as per the CBK Corporate Governance Instructions

As per the CBK's Corporate Governance Instructions, we have disclosed the remuneration paid to certain staff categories and the amounts paid to each category. The analyses include the variable and fixed parts of the remuneration package and methods of payment.

First: Board of Directors Remuneration

The financial remunerations paid to the Board of Directors are disclosed in Note 30 and 33 of the Annual Financial Statements.

Second: Remuneration of the Highest Paid Executives at KFH Kuwait

As per the CBK Corporate Governance Instructions, this section must include the total remuneration paid to the 5 highest paid senior executive officers, which includes their salary and short & long-term incentives in 2013. However, the group must also include the Chief Executive Officer (CEO), the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the Head of Internal Audit if any of them are not part of the top 5. Hence, this section includes the total remuneration in 2013 of the top 5 highest paid executives at KFH Kuwait as well as 2 mandatory positions which were not part of the top 5. The total for this group (top 5 + 2) amounted to KD 2,932,148. The remuneration package of each executive included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits.

Third: Remuneration by Specific Staff Categories

1. CEO and his deputies and/or other Senior Executives whose appointment is subject to the approval of the regulatory and supervisory authorities: The total remuneration paid to this category amounted to KD 3,779,480. The remuneration package of each executive in this category included fixed and variable pay components including salary (basic and monetary / non-monetary benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits. The group does not include the remuneration details of the Chief Investment Officer (CIO) who was approved by the CBK, but who resigned in February 2013.

2. Financial and Risk Control Staff: The total remuneration paid to this category amounted to KD 3,509,230. The remuneration package of the staff in this category differed based on their grades as well as their individual employment contracts. The pay components included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives for eligible senior executives and termination benefits.

3. Material Risk Takers: The total remuneration paid to this category amounted to KD 2,840,182. The category includes the top management and the Divisional Heads of the business functions with financial authorities and who delegate responsibilities to their respective divisional staff and are ultimately responsible and accountable for the risks taken by them. The total remuneration included fixed and variable pay components including salary (basic and benefits / allowances), short-term incentives including fixed and variable annual cash bonus, as well as long-term incentives and termination benefits. The group does not include the remuneration details of the Chief Investment Officer (CIO) who was approved by the CBK, but who resigned in February 2013.

Risk Management Activities Report

1. Developments in Risk Management during 2013

During 2013, there were a number of developments and initiatives undertaken by the Bank to enhance its risk management practices in line with the development plan which took effect in 2011 with the aim of strengthening the risk management structure at the KFH Group level. Risk Management was able to develop and implement a share capital management plan and enhance KFH's CARs. Risk Management also enhanced KFH's capital allocation in line with the approved budget.

The Department developed more than 21 Risk and Governance Policies set for KFH in Kuwait as per the Procedures Manual, applied stress testing and conducted internal assessment of the capital adequacy at the level of KFH Group and the subsidiary banks. It was also able to develop the financial and management performance indicators according to the CAMEL-BCOM method on a quarterly basis and analyzed the results in a report to be submitted to the Board of Directors.

The Risk Management Department drew up the share capital plan and conducted the ICAAP tests with the aim to assess the internal share capital of KFH Malaysia. Risk Management also contributed actively in the adoption of the budget and financial plan of 2013. Risk Management in cooperation with Finance & Accounting, contributed to the design and development of a framework for pricing fund transfers through KFH in Kuwait and the development of credit risk assessment criteria for all products, particularly real estate finance. It also developed effective operating risks identification mechanisms and developed VaR models resulting from foreign currency exposures.

Furthermore, Risk Management completed the initial phase in the application of the Foreign Account Tax Compliance Act (FATCA) while the second phase was due to begin in 2014. Risk Management also took the initiative to enhance its regulatory reporting in order to make the reports look more professional by signing an agreement with (Protiviti), the global consulting firm.

During 2013, Risk Management in cooperation with Finance & Accounting conducted an evaluation of Basel III committee criteria impacts proposed by Kuwait Central Bank and made arrangements to provide all additional data and information required and to be submitted in evaluating the quantitative impacts of Basel III.

In 2013, the Board approved the Annual Budget Plan which comprise a set of objectives for Risk Managment including risk management for IT systems and liquidity.

2. Independence of Risk Management Function

The Bank has an independent Risk Management function (including the Chief Risk Officer) with sufficient authority, stature, independence, resources and access to the Board. The stature of the Risk Management Department within the Bank ensures that issues raised by risk managers receive the necessary attention from the Board, senior management and business lines. The CRO is appointed and terminated by the Board subject to the prior approval of the Central Bank of Kuwait (CBK). The CRO has no financial responsibilities and reports directly to the Chairman of the Board Risk & Assets Committee (BRAC) and presents reports directly to the Committee. The CRO also has full access to the Bank's Chairman to raise any issues directly if and when required. The CRO meets with the non-executive Board members and BRAC members in the absence of senior management.

The Board ensures that the CRO has the authority to influence the Bank's decisions pertaining to exposure to risks and that the Risk Management Department has significance within the Bank. Although the Risk Management Department is sufficiently independent of the business units whose activities and exposures it reviews, it has access to all internal and external business lines, so as to understand them and request any relevant information to assess risk exposures in an appropriate way.

Annual Report 2013
Capital Adequacy Disclosures

Capital Adequacy Disclosures

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel II have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular No.2/RBA/44/2009 dated 15 June 2009. General disclosures related to Capital Adequacy Standard under Basel II rely on calculating the minimum capital required to cover credit and market risks using the Standardized Approach and the minimum capital required to cover operational risk using the Basic Indicator Approach.

First: Group Structure

Kuwait Finance House (the "Bank") and its subsidiaries' (collectively the "Group") are engaged in providing Islamic banking, finance and investment services that comply with Islamic Shari'a. The subsidiaries are fully consolidated into the Bank's financial statements based on similar accounting policies and are accounted for using the equity method. Details about subsidiaries and associates are as follows:

1. Subsidiaries:

1.1 Kuwait Finance House (Malaysia) Berhard: is a 100% (2012: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.2 KFH Private Equity Ltd: is a 100% (2012: 100%) owned investment company registered at the Cayman Islands. Its main activities comprise global private equity investments

1.3 KFH Financial Services Ltd: is a 100% (2012: 100%) owned subsidiary company, registered in Cayman Islands. It has one subsidiary and one associate company. Its main activity is in the real estate sector outside Kuwait.

1.4 Al-Muthanna Investment Company K.S.C. (Closed): is a 100% (2012: 100%) owned investment company. Its activities comply with Islamic Shari'a that include investments, Islamic financing services, equity trading, private equity investments, real estate investments and asset management services.

1.5 Kuwait Finance House Real Estate Company K.S.C (Closed): is a 100% (2012: 100%) owned real estate investment company. It is engaged in owning, sale and purchase of real estate, development of the company's properties, development of properties and land on behalf of customers inside and outside Kuwait.

1.6 Development Enterprises Holding Company K.S.C: is a 100% (2012: 100%) owned subsidiary its main activities include owning long-term strategic assets through investment or financing in companies with industrial and commercial activities.

1.7 Baitak Real Estate Investment Company S.S.C. (Closed): is a 100% (2012: 100%) owned real estate investment company registered in the Kingdom of Saudi Arabia. Its main activities comprise investments and real estate development.

1.8 Kuwait Finance House Investment Company K.S.C. (Closed): is a 100% (2012: 100%) owned Investment Company. Its activities include financing activities, which comply with Islamic Shari'a, and high quality/low risk investments.

1.9 Saudi Kuwaiti Finance House S.S.C. (Closed): is a 100% (2012: 100%) owned subsidiary, registered in Kingdom of Saudi Arabia. The main activities of the company are to provide services as a principal or as an agent of underwriting, management, arrangement, advisory services and custody in relation to securities.

1.10 International Turnkey Systems Company K.S.C. (Closed): is a 97% (2012: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies.

1.11 Kuwait Finance House (Bahrain) B.S.C. : is a 100% (2012: 93%) owned Islamic bank registered in the Kingdom of Bahrain since 2002. Its activities include providing products and banking services that comply with Islamic Shari'a, management of investment accounts on profit sharing basis and providing Islamic finance contracts including retail services. Subsidiaries' activities include services & communications sector and the real estate investment activities.

1.12 Kuwait Turkish Participation Bank: is a 62% (2012: 62%) owned Islamic bank registered in Turkey since 1989. Its main activities include providing Islamic banking and finance services, investment of funds on a profit/loss sharing basis. Subsidiaries' activities include financing real estate development.

1.13 ALAFCO – Aviation Lease & Finance Company K.S.C. (Closed): is a 53% (2012: 53%) owned subsidiary. Its main activities include the purchase and leasing of aircraft according to Islamic Shari'a principles.

1.14 Aref Investment Group K.S.C. (Closed): is a 52% (2012: 52%) owned investment company and is engaged in a wide variety of activities that include real estate investments and Islamic financing activities which comply with Islamic Shari'a. Aref's subsidiaries activities include the energy sector, educational services, medical services, transportation and information technology.

1.15 Al Enma'a Real Estate Company K.S.C. (Closed): is a 50% (2012: 50%) owned subsidiary engaged in real estate activities including operating leases.

1.16 Public Service Company K.S.C. (Closed): is a 80% (2012: 80%) owned subsidiary engaged in management consultancy and services.

2. Direct Investment in Associates:

2.1 Specialties Group Holding Company K.S.C. (Closed): is a 40% (2012: 40%) owned associate. It conducts various activities represented in equities acquirement, establishment of new companies which includes management, financing and guaranteeing, acquisition of industrial patents and trademarks and investing in portfolios managed by others.

2.2 First Takaful Insurance Company K.S.C. (Closed): is a 28% (2012: 28%) owned associate company operating in the field of Islamic Takaful Insurance, advisory and technical research services related to reinsurance activities. In addition, investments are made through funds that comply with Islamic Shari'a.

2.3 Gulf Investment House K.S.C. (Closed): is a 20% (2012: 20%) owned associate. Its main activities include investment and financing activities and financial & advisory services.

2.4 Sharjah Islamic Bank P.J.S.C. : is a 20% (2012: 20%) owned bank registered in Sharjah – United Arab Emirates since 1975. Its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

Second: Capital Structure

The group capital comprises Tier (1) capital which demonstrates the group's strength and includes share capital, reserves, minority interest, minus the treasury shares, goodwill and unconsolidated Financial Institutions, significant minority interest and investment in insurance companies according to rules and regulations.

The group does not have structured or complex equity instruments which are prohibited by Islamic Shari'a principles.

As at 31 December 2013, Tier (1) "Core Capital" amounted KD 1,937,094 thousand (2012: KD 1,503,852 thousand), Tier (2) "Supplementary Capital" amounted KD 23,852 thousand (2012: KD 40,851 thousand) as detailed below:

	2013	*2012*
	(KD' 000)	*(KD' 000)*
Capital Structure		
Tier (1) Core Capital		
Share Capital	383,350	290,416
Disclosed reserves	1,352,665	1,063,281
Minority interest in consolidated subsidiaries	336,356	311,318
Total (1)	2,072,371	1,665,015
Deduction from Tier (1) – Core Capital		
Treasury shares	56,118	54,028
Goodwill	10,817	45,612
Unconsolidated financial institutions	-	1,556
Significant minority investments	65,967	57,592
Investment in insurance entities	2,375	2,375
Total (2)	135,277	161,163
A) Total Tier (1) capital	1,937,094	1,503,852
Tier (2) Supplementary Capital		
Asset revaluation reserves	(26,579)	(14,438)
Fair value reserves	(3,661)	(2,482)
General provisions	122,434	119,294
Total (3)	92,194	102,374
Deduction from Tier (2) Supplementary Capital		
Unconsolidated financial institutions	-	1,556
Significant minority investments	65,967	57,592
Investment in insurance entities	2,375	2,375
Total (4)	68,342	61,523
B) Total tier (2) of capital	23,852	40,851
Total Available Capital	1,960,946	1,544,703

Third: Capital Adequacy Ratios

At 31st of December 2013 the total Capital Adequacy ratio 17.44% (2012: 13.93%) and Tier (1) 17.23% (2012: 13.57%) compared to the ratio required by regulatory authorities of 12%.

The group ensures the fulfillment of Central Bank of Kuwait requirements in relation to capital adequacy through monitoring the internal limits which are supported by a special capital planning mechanism.

Capital Adequacy ratio for banking subsidiaries

The Group's banking subsidiaries are subject to direct supervision by regulatory authorities of the country in which they are registered. They are also required to compute their capital Adequacy Ratio (Basel II) as per Central Bank of Kuwait's regulations for Islamic banks. The main Capital Adequacy information for the banking subsidiaries is as follows:

	2013		2012	
Banking group	Tier (1)/ risk weighted assets	Total capital/ risk weighted assets	Tier (1)/ risk weighted assets	Total capital/ risk weighted assets
Kuwait Finance House – Malaysia	16.24%	17.32%	13.75%	14.87%
Kuwait Finance House – Bahrain	21.53%	23.61%	19.95%	22.25%
Kuwait Turkish Participation Bank – Turkey	15.65%	16.60%	15.42%	16.59%

Fourth: Risk weighted assets and Minimum Capital Requirement

1. Credit risk

The minimum required capital for credit risk exposures was KD 1,157,510 thousand as at 31 December 2013 (2012: KD 1,126,853) as detailed below:

					2013 (KD' 000)
Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	198,337	198,337	-	-
2	Claims on sovereigns	2,885,671	2,881,838	237,934	28,552
3	Claims on public sector entities	60,279	60,279	9,639	1,157
4	Claims on banks	1,074,287	1,073,750	198,003	23,760
5	Claims on corporates	3,462,570	2,761,850	2,080,513	249,662
6	Regulatory retail exposure	2,824,642	2,573,580	1,964,783	235,774
7	Qualifying residential housing financing facilities	354,791	119,666	33,485	4,018
8	Past due exposures	550,609	208,527	95,999	11,520
9	Inventory and commodities	613,746	613,746	606,782	72,814
10	Real estate investments	899,787	899,787	1,438,920	172,670
11	Investment and financing with customers	2,352,545	1,416,724	1,715,399	205,848
12	Sukuk and taskeek	175,271	175,271	96,258	11,551
13	Other exposures	1,461,078	1,461,078	1,168,200	140,184
	Total	16,913,613	14,444,433	9,645,915	1,157,510

Fourth: Risk weighted assets and Minimum Capital Requirement (continued)

1. Credit risk (continued)

2012 (KD' 000)

Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	444,262	444,262	-	-
2	Claims on sovereigns	1,422,286	1,418,447	148,098	17,772
3	Claims on public sector entities	70,588	70,588	11,091	1,331
4	Claims on banks	1,150,758	1,150,758	325,357	39,043
5	Claims on corporates	3,579,218	2,922,196	2,177,141	261,257
6	Regulatory retail exposure	2,565,826	2,311,943	1,715,167	205,820
7	Qualifying residential housing financing facilities	292,574	92,584	25,458	3,055
8	Past due exposures	431,002	203,778	107,066	12,848
9	Inventory and commodities	541,247	541,247	527,620	63,314
10	Real estate investments	872,131	872,131	1,371,206	164,545
11	Investment and financing with customers	2,477,522	1,462,986	1,731,658	207,799
12	Sukuk and taskeek	164,254	164,254	108,229	12,987
13	Other exposures	1,453,889	1,453,889	1,142,360	137,082
	Total	15,465,557	13,109,063	9,390,451	1,126,853

2. Market risk

Market Risk Weighted Exposure during the financial year 2013 amounted KD 648,574 thousand (2012: KD 839,292 thousand), based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 77,829 thousand (2012: KD 100,715 thousand).

One of the methods used to mitigate exchange rate risks to which the bank is exposed, includes netting of exchange of deposits transactions with banks and financial institutions.

3. Operational risk

Operational risk weighted exposures calculated during the year 2013 amounted to KD 948,638 thousand (2012: KD 856,008 thousand) as per the Basic Indicator Approach. The amount calculated for operational risk weighted exposures is adequate to cover any projected risks to maintain a reasonable profit ratio for shareholders and investment account owners. The minimum required capital for operational risk exposures amounts to KD 113,837 thousand (2012: KD 102,721 thousand).

Risk Management

Risk management is an integral part of the decision-making processes for the Group. It is implemented through a governance process that emphasizes independent risk assessment, control and monitoring, overseen directly by the Board and Senior Management. KFH continues to upgrade its risk management capabilities in the light of developments in the business, banking and stock market regulations and risk management best practices. KFH operate a "three lines of defence" system for managing risk:

- The first line of defence is the business unit, which manages the relationship with the customer. Its responsibility is to understand customer requirements to mitigate the risk of default or early withdrawal of deposits and to maintain and improve the processes through which KFH serves the customer to mitigate operational failures leading to loss or damage to reputation.

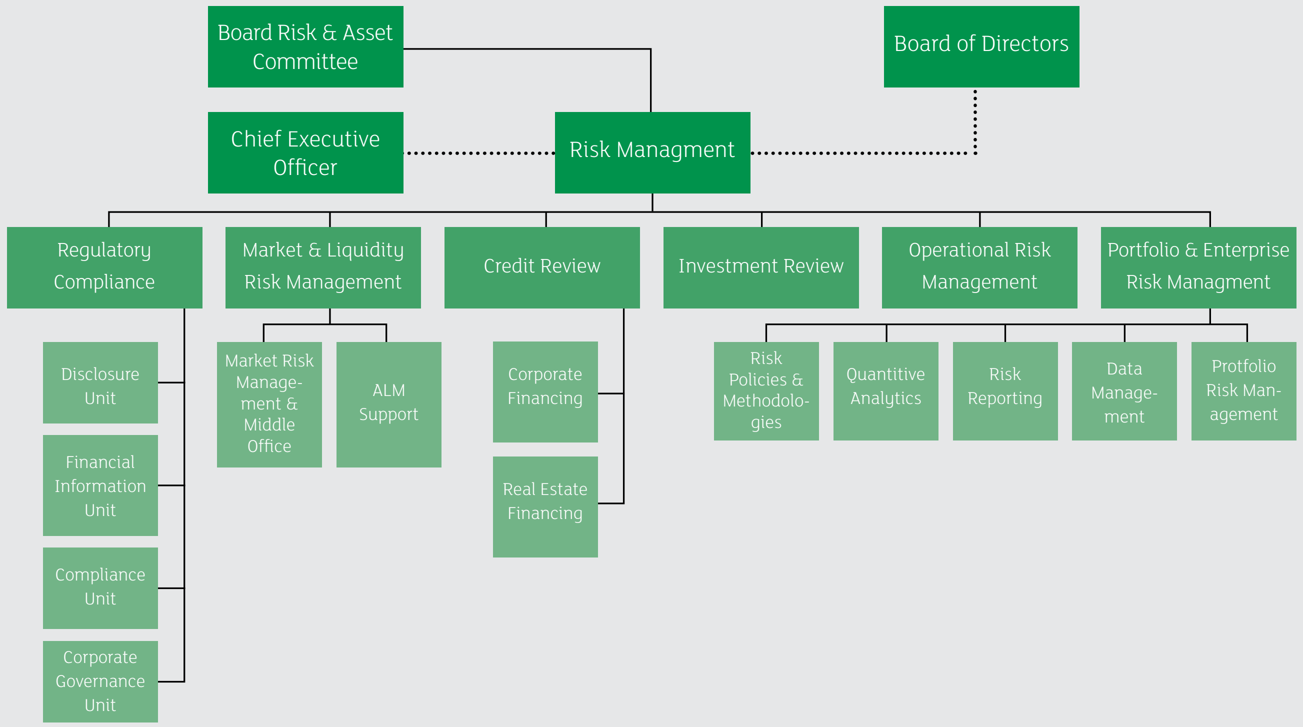
- The second line of defense is the control functions of Risk Management and Financial Control. These are responsible for establishing the risk management and control frameworks and for conducting independent assessment and direction of risk management and control activities.

- The third line of defence contains the assurance functions, namely Regulatory Compliance, Anti-Money Laundering and Internal Audit. They are responsible for ensuring compliance with regulatory requirements and internal policies and for identifying weaknesses in such policies so that remedial action may be taken by the management.

1. Risk governance structure at the group level

The Board of Directors has ultimate responsibility for oversight of risk management and control in KFH. It sets the Risk Appetite of the Group. It delegates part of this responsibility to the Board Risk and Assets Committee and the Board Audit Committee. At the executive level, risk is managed by the Executive Management Team, reporting to the Chief Executive Officer. KFH has an independent Chief Risk Officer (CRO) and Chief Financial Officer (CFO) who have direct access to the Board Risk and Assets Committee and the Board Audit Committee respectively. At this level, risk is governed through a set of committees, such as the Credit Committee, the Asset and Liability Committee (ALCO) and the Operational Risk Committee. KFH co-ordinates its Group-wide risk management and control activities through Committee's of the Group's CRO's and CFO's, while the Group CRO and CFO maintain daily contact with the subsidiaries for risk management and control operations.

2. Organizational structure of the Risk Management Department in Kuwait Finance House



The risk management department in KFH is organized on functional lines. Risk management executives have explicit responsibility for Credit Risk, Market and Liquidity Risk, Investment Risk, Operational Risk and Portfolio and Enterprise Risk Management. For administrative reasons, Regulatory Compliance & Regulatory Reporting and Credit Administration also report to the CRO, while the Anti-Money Laundering unit reports directly to the Chairman of the Board. This Department is responsible for developing and implementing the processes to identify, assess, control, monitor and report risks. It operates independently from the profit generating units and provides a rigorous review and challenge for all investment and financing proposals as well as strategic initiatives such a new products and markets. It also promotes better balance sheet management through capital optimization and works closely with the Treasury to mitigate the funding and liquidity risks in all of the currencies in which the Group operates.

3. A culture of risk management, training and awareness-raising

KFH strives hard to promote awareness of and strengthen the culture of risk management across the Group. With the strong support of the Board, KFH is upgrading its risk management policies and procedures and clarifying roles and responsibilities for managing risk. The aim is to ensure that risk is considered in all key financing, investment and funding decisions as well as in all key operations to protect the bank from future loss and strengthen the value of the commitments to shareholders and depositors. The risk management department is active in conducting workshops and awareness sessions across the Group to improve staff understanding of the risks inherent in their activities and the steps required to mitigate such risks.

4. Types of Risks

Kuwait Finance House (Closed) "the Bank" and its subsidiaries "The group" are exposed to various types of risks including credit, market and operational risks.

The main risks to which the Group is exposed are:

4.1 Credit risk

Kuwait Finance House is exposed to credit risk in its financing, leasing and investment activities where customers fail to perform in accordance with Murabaha, Istisnaa and Ijara contracts or where there is default or partial default by counter-parties to Sukuk transactions, which are held to maturity in the Bank's records or according to the regulatory classification standards for specialized finance.

The risk can materialize in large exposures to individuals or groups or in concentrations of financing in any particular sector which is subject to financial stress.

4.1.1 Credit Risk Governance

The objective of Credit Risk Governance is to establish and maintain a performing financing portfolio that minimizes the incidence of customer default. The process of risk management begins with the relationship manager who is responsible for developing and maintaining an understanding of the customers financing needs and financial position with a view to ensuring that the customer is not exposed to excessive leverage in his financing activities. In KFH, credit decisions are taken, based on an assessment of the customer's ability to service and repay the debt. Collateral is taken as security to mitigate loss in the event of a default by the customer.

With the exception of consumer financing, applications for new or renewed financing are reviewed independently in the business before being submitted to the risk management department for assessment and recommendation. The Credit Committee reviews and challenges all applications and approves or denies those that fall within its Board-delegated authority. The CRO is a non-voting member of the Credit Committee and provides an independent recommendation. He has the authority to escalate a proposal to the Board if he disagrees with the decision of the Credit Committee. The Board of Directors decides on all proposals in excess of the delegated authority of the Credit Committee.

Net Credit Exposures classified as Rated or Unrated (External Ratings)

				2013 (KD' 000)
Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	198,337	-	198,337
2	Claims on sovereigns	2,881,838	2,868,681	13,157
3	Claims on public sector entities	60,279	-	60,279
4	Claims on banks	1,073,750	479,782	593,968
5	Claims on corporates	2,761,850	717,762	2,044,088
6	Regulatory retail exposure	2,573,580	-	2,573,580
7	Qualifying residential housing financing facilities	119,666	-	119,666
8	Past due exposures	208,527	-	208,527
9	Inventory and commodities	613,746	-	613,746
10	Real estate investments	899,787	-	899,787
11	Investment and financing with customers	1,416,724	246,558	1,170,166
12	Sukuk and taskeek	175,271	175,271	-
13	Other exposures	1,461,078	-	1,461,078
	Total	14,444,433	4,488,054	9,956,379

				2012 (KD' 000)
Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	444,262	-	444,262
2	Claims on sovereigns	1,418,447	1,418,447	-
3	Claims on public sector entities	70,588	-	70,588
4	Claims on banks	1,150,758	770,893	379,865
5	Claims on corporates	2,922,196	684,447	2,237,749
6	Regulatory retail exposure	2,311,943	-	2,311,943
7	Qualifying residential housing financing facilities	92,584	-	92,584
8	Past due exposures	203,778	-	203,778
9	Inventory and commodities	541,247	-	541,247
10	Real estate investments	872,131	-	872,131
11	Investment and financing with customers	1,462,986	306,020	1,156,966
12	Sukuk and taskeek	164,254	164,254	-
13	Other exposures	1,453,889	-	1,453,889
	Total	13,109,063	3,344,061	9,765,002

Total Credit Risk exposures classified as "Self Financed and Financed" from Investment Accounts:

			2013 (KD'000)
Ser.	Credit risk exposures	Self financed	Finance form Investment Accounts
1	Cash item	123,695	74,642
2	Claims on sovereigns	1,799,674	1,085,997
3	Claims on public sector entities	37,593	22,685
4	Claims on banks	651,849	393,352
5	Claims on corporates	1,345,085	811,679
6	Regulatory retail exposure	1,646,394	993,502
7	Qualifying residential housing financing facilities	221,269	133,523
8	Past due exposures	342,590	206,733
9	Inventory and commodities	382,768	230,978
10	Real estate investments	560,872	338,453
11	Investment and financing with customers	1,466,291	884,820
12	Sukuk and taskeek	109,309	65,962
13	Other exposures	910,952	549,707
	Total	9,598,341	5,792,033

Total Credit Risk exposures classified as "Self Financed and Financed" from Investment Accounts (continued):

2012 (KD'000)

Ser.	Credit risk exposures	Self financed	Finance form Investment Accounts
1	Cash item	265,176	179,086
2	Claims on sovereigns	848,948	573,338
3	Claims on public sector entities	42,133	28,455
4	Claims on banks	662,643	447,516
5	Claims on corporates	1,429,304	965,282
6	Regulatory retail exposure	1,427,526	964,081
7	Qualifying residential housing financing facilities	174,634	117,939
8	Past due exposures	255,820	172,768
9	Inventory and commodities	323,065	218,182
10	Real estate investments	519,285	350,699
11	Investment and financing with customers	1,475,956	996,788
12	Sukuk and taskeek	98,042	66,213
13	Other exposures	867,408	585,804
	Total	8,389,940	5,666,151

Average Credit Risk exposures, average Self Financed Assets and average Assets Financed from Investment Accounts on quarterly basis:

2013 (KD'000)

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self financed	Average Finance form Investment Accounts
1	Cash item	242,221	145,535	96,686
2	Claims on sovereigns	2,274,270	1,373,070	901,200
3	Claims on public sector entities	63,616	38,209	25,407
4	Claims on banks	1,239,178	721,664	483,135
5	Claims on corporates	3,532,845	1,347,401	895,926
6	Regulatory retail exposure	2,737,137	1,532,239	1,014,045
7	Qualifying residential housing financing facilities	330,604	198,970	131,634
8	Past due exposures	546,053	327,456	216,605
9	Inventory and commodities	554,825	334,261	220,563
10	Real estate investments	921,971	553,364	367,461
11	Investment and financing with customers	2,349,557	1,411,955	935,030
12	Sukuk and taskeek	173,442	104,261	69,181
13	Other exposures	1,421,455	854,949	565,959
	Total	16,387,174	8,943,334	5,922,832

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2012 (KD' 000)

Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self financed	Average Finance form Investment Accounts
1	Cash item	295,573	181,280	114,294
2	Claims on sovereigns	1,432,440	877,308	555,132
3	Claims on public sector entities	48,824	29,895	18,929
4	Claims on banks	1,221,495	716,706	462,074
5	Claims on corporates	3,445,034	1,385,375	883,186
6	Regulatory retail exposure	2,341,348	1,333,035	854,024
7	Qualifying residential housing financing facilities	292,825	178,756	114,069
8	Past due exposures	523,677	319,244	202,711
9	Inventory and commodities	555,544	339,441	216,103
10	Real estate investments	890,258	543,298	345,323
11	Investment and financing with customers	2,408,003	1,468,043	935,196
12	Sukuk and taskeek	148,837	90,873	57,965
13	Other exposures	1,462,493	892,311	567,984
	Total	15,066,351	8,355,565	5,326,990

Excess Risk Concentrations

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

In order to avoid excessive risk concentrations, the Bank's policies and procedures include specific guidelines to focus on maintaining diversified portfolio, thus establishing control over certain credit risk concentrations. Credit mitigation techniques are used by the Bank to manage risk concentrations both at the relationship and industry levels.

The Bank depends on a group of Central Bank of Kuwait approved external rating agencies including S&P, Moody's and Fitch to support internal credit ratings.

Geographical Distributions for Credit Risk Exposure

2013 (KD' 000)

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	51,992	-	144,774	1,381	190	198,337
2	Claims on sovereigns	2,092,756	-	613,041	178,193	1,681	2,885,671
3	Claims on public sector entities	60,279	-	-	-	-	60,279
4	Claims on banks	819,209	17,742	169,303	53,896	14,137	1,074,287
5	Claims on corporates	804,732	109,330	2,215,922	287,069	45,517	3,462,570
6	Regulatory retail exposure	1,838,235	208	811,816	173,711	672	2,824,642
7	Qualifying residential housing financing facilities	48,835	-	305,956	-	-	354,791
8	Past due exposures	462,978	-	26,970	60,247	414	550,609
9	Inventory and commodities	225,602	12,162	130,786	245,196	-	613,746
10	Real estate investments	728,840	47,233	53,404	47,094	23,216	899,787
11	Investment and financing with customers	2,144,793	42,748	44,611	119,886	507	2,352,545
12	Sukuk and taskeek	61,086	24,566	14,866	67,630	7,123	175,271
13	Other exposures	1,207,421	45,602	104,552	94,728	8,775	1,461,078
	Total	10,546,758	299,591	4,636,001	1,329,031	102,232	16,913,613

2012 (KD'000)

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	41,791	-	385,068	1,942	15,461	444,262
2	Claims on sovereigns	907,132	-	388,078	126,168	908	1,422,286
3	Claims on public sector entities	70,588	-		-	-	70,588
4	Claims on banks	813,478	24,270	167,118	125,561	20,331	1,150,758
5	Claims on corporates	1,102,998	61,583	1,894,581	470,588	49,468	3,579,218
6	Regulatory retail exposure	1,575,827	12,042	828,124	149,829	4	2,565,826
7	Qualifying residential housing financing facilities	35,144	3	257,427	-	-	292,574
8	Past due exposures	357,753	-	31,847	41,402	-	431,002
9	Inventory and commodities	218,375	12,619	147,638	162,615	-	541,247
10	Real estate investments	719,734	55,094	71,440	2,823	23,040	872,131
11	Investment and financing with customers	2,203,788	85,310	44,528	140,227	3,669	2,477,522
12	Sukuk and taskeek	86,881	27,026	43,248	-	7,099	164,254
13	Other exposures	1,190,418	29,318	135,283	89,827	9,043	1,453,889
	Total	9,323,907	307,265	4,394,380	1,310,982	129,023	15,465,557

Maturities of total Credit Risk exposures

2013 (KD' 000)

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	194,918	-	3,419	198,337
2	Claims on sovereigns	2,059,863	488,464	337,344	2,885,671
3	Claims on public sector entities	-	-	60,279	60,279
4	Claims on banks	758,635	158,940	156,712	1,074,287
5	Claims on corporates	671,887	898,662	1,892,021	3,462,570
6	Regulatory retail exposure	247,264	367,608	2,209,770	2,824,642
7	Qualifying residential housing financing facilities	1,653	20,833	332,305	354,791
8	Past due exposures	134,430	223,930	192,249	550,609
9	Inventory and commodities	512	2,963	610,271	613,746
10	Real estate investments	9,718	81,388	808,681	899,787
11	Investment and financing with customers	558,369	905,289	888,887	2,352,545
12	Sukuk and taskeek	-	8,086	167,185	175,271
13	Other exposures	177,115	25,005	1,258,958	1,461,078
	Total	4,814,364	3,181,168	8,918,081	16,913,613

2012 (KD' 000)

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	426,859	-	17,403	444,262
2	Claims on sovereigns	825,825	372,208	224,253	1,422,286
3	Claims on public sector entities	49,402	-	21,186	70,588
4	Claims on banks	942,986	134,940	72,832	1,150,758
5	Claims on corporates	673,381	1,177,887	1,727,950	3,579,218
6	Regulatory retail exposure	251,427	379,591	1,934,808	2,565,826
7	Qualifying residential housing financing facilities	1,169	9,939	281,466	292,574
8	Past due exposures	270,952	101,018	59,032	431,002
9	Inventory and commodities	480	2,832	537,935	541,247
10	Real estate investments	12,471	55,888	803,772	872,131
11	Investment and financing with customers	706,407	888,601	882,514	2,477,522
12	Sukuk and taskeek	30,468	16,979	116,807	164,254
13	Other exposures	39,981	30,248	1,383,660	1,453,889
	Total	4,231,808	3,170,131	8,063,618	15,465,557

Main sectors of total Credit Risk exposures

2013 (KD'000)

Ser.	Credit risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	148,472	4	-	49,861	198,337
2	Claims on sovereigns	-	636,962	-	2,173,309	75,400	2,885,671
3	Claims on public sector entities	-	-	-	-	60,279	60,279
4	Claims on banks	3,399	1,046,956	15,757	-	8,175	1,074,287
5	Claims on corporates	1,608,480	223,395	738,404	30,169	862,122	3,462,570
6	Regulatory retail exposure	347,494	4,521	145,417	4,638	2,322,572	2,824,642
7	Qualifying residential housing financing facilities	-	-	48,835	-	305,956	354,791
8	Past due exposures	105,292	126,603	132,437	40	186,237	550,609
9	Inventory and commodities	4,706	-	512	-	608,528	613,746
10	Real estate investments	-	-	670,049	-	229,738	899,787
11	Investment and financing with customers	168,682	3,472	861,312	-	1,319,079	2,352,545
12	Sukuk and taskeek	26,170	134,235	1,102	-	13,764	175,271
13	Other exposures	67,324	342,601	489,750	-	561,403	1,461,078
	Total	2,331,547	2,667,217	3,103,579	2,208,156	6,603,114	16,913,613

2012 (KD'000)

Ser.	Credit risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	388,823	-	-	55,439	444,262
2	Claims on sovereigns	-	389,893	2,759	1,023,467	6,167	1,422,286
3	Claims on public sector entities	-	-	-	-	70,588	70,588
4	Claims on banks	2,412	1,148,133	-	-	213	1,150,758
5	Claims on corporates	1,596,747	191,427	689,677	-	1,101,367	3,579,218
6	Regulatory retail exposure	338,047	2,260	122,925	-	2,102,594	2,565,826
7	Qualifying residential housing financing facilities	-	-	35,144	-	257,430	292,574
8	Past due exposures	71,584	94,979	122,508	64	141,867	431,002
9	Inventory and commodities	4,040	-	480	-	536,727	541,247
10	Real estate investments	-	-	692,694	-	179,437	872,131
11	Investment and financing with customers	121,488	9,984	1,116,581	-	1,229,469	2,477,522
12	Sukuk and taskeek	19,167	125,925	7,800	-	11,362	164,254
13	Other exposures	92,558	388,213	466,106	-	507,012	1,453,889
	Total	2,246,043	2,739,637	3,256,674	1,023,531	6,199,672	15,465,557

4.1.2 Irregular and past due credit facilities

1. Irregular Credit facilities (Impaired) consist the following categories:

- Watch list Category requiring specific provisions: Includes regular clients but upon management's discretion, provisions have been taken to confront any possible future deterioration, in addition to credit facilities that are overdue for 90 days or less (inclusive). The specific provision percentage is determined based on each case and after a thorough study by the management and after deducting deferred, suspended profit and eligible collateral.
- Sub-standard: If facilities are irregular for a period of 91 – 180 days (inclusive), a provision rate of minimum 20% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.
- Doubtful Debts: if debts are irregular for a period of 181 – 365 days (inclusive),a provision rate of minimum 50% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.
- Bad Debts: if debts are irregular for more than 365 days, a provision rate of 100% shall be applied on the total of the facilities net of deferred and suspended profit and eligible collateral.

2. Past due credit facilities: these are defined as facilities which are overdue for 90 days or less (inclusive). These facilities are known as the "Watch list Category" and no specific provision is taken against them.

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

As at 31 December 2013, Group's provisions amounted KD 521,261 thousand (2012: KD 482,612 thousand), including general provisions that amounted KD 271,258 thousand (2012: KD 272,400 thousand).

Irregular and past due financing facilities exposures based on standard portfolios

2013 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Claims on banks	479	477	2	0	429
2	Claims on corporate	629,508	186,007	443,501	130,443	413,338
3	Regulatory retail exposure	83,738	45,351	38,387	16,986	226,918
4	Qualifying residential housing financing Facilities	4,465	381	4,084	1,046	12,716
5	Investment and financing with customers	126,191	17,787	108,404	546	27,081
	Total	844,381	250,003	594,378	149,021	680,482

2012 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Claims on banks	5,555	5,314	241	3,010	-
2	Claims on corporate	390,869	124,728	266,141	230,075	464,046
3	Regulatory retail exposure	123,947	63,379	60,568	14,034	223,673
4	Qualifying residential housing financing Facilities	12,851	772	12,079	119	11,104
5	Investment and financing with customers	146,408	16,019	130,389	28,644	95,690
	Total	679,630	210,212	469,418	275,882	794,513

Irregular and past due financing facilities exposures based on geographical distribution

2013 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Middle East & North Africa	652,362	156,460	495,902	126,315	418,520
2	Europe	67,557	31,878	35,679	6,624	127,721
3	Asia	124,462	61,665	62,797	16,082	134,241
	Total	844,381	250,003	594,378	149,021	680,482

2012 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Middle East & North Africa	502,116	116,701	385,415	230,578	516,304
2	Europe	70,857	29,719	41,138	7,717	104,875
3	Asia	106,657	63,792	42,865	37,587	173,334
	Total	679,630	210,212	469,418	275,882	794,513

Irregular and past due financing facilities exposures based on Industrial

2013 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	197,566	80,581	116,985	38,969	84,140
2	Banks and financial institutions	120,377	23,130	97,247	14,624	18,763
3	Constructions & real estate	302,520	54,085	248,435	71,592	334,992
4	Others	223,918	92,207	131,711	23,836	242,587
	Total	844,381	250,003	594,378	149,021	680,482

2012 (KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	135,082	68,276	66,806	65,975	142,479
2	Banks and financial institutions	143,119	22,191	120,928	109,953	23,581
3	Constructions & real estate	245,812	64,742	181,070	28,374	212,901
4	Others	155,617	55,003	100,614	71,580	415,552
	Total	679,630	210,212	469,418	275,882	794,513

General provision

Ser.	Description of credit risk exposures	2013	2012
1	Claims on banks	8,318	980
2	Claims on corporates	213,148	200,995
3	Regulatory retail exposures	45,363	40,941
4	Real estate investments	-	2,318
5	Investment and financing with customers	4,429	27,166
	Total	271,258	272,400

4.1.3 Applicable Risk Mitigation Methods

Kuwait Finance House K.S.C (The Bank) ensures the diversification of exposures according to standard portfolios, business sectors and geographical distributions borders. In addition to the continuous evaluation of risk mitigation methods against finance obligations and credit limits of the customer as per the analytical study of the customer's financial position.

Eligible collaterals and guarantees are calculated as per Central Bank of Kuwait instructions. Netting is applied for exchange of deposits with banks and financial institutions. Bank guarantees are used to redirect risks to claim on banks portfolio. Standard Supervisory Haircuts are applied on Eligible Collaterals according to Central Bank of Kuwait regulations in relation to Basel II standard.

The Bank compliance with the credit concentration limits per customer 15% and maintaining adequate ratios of liquid assets 18% provides several methods to measure the quality and effectiveness of risk mitigation methods used to mitigate capital requirements.

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure

2013 (KD'000)

Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	198,337	-	
2	Claims on sovereigns	2,885,671	3,833	
3	Claims on public sector entities	60,279	-	
4	Claims on banks	1,074,287	537	-
5	Claims on corporates	3,462,570	700,720	-
6	Regulatory retail exposures	2,824,642	251,063	-
7	Qualifying residential housing financing facilities	354,791	235,126	-
8	Past due exposures	550,609	342,081	-
9	Inventory and commodities	613,746	-	-
10	Real estate investment	899,787	-	-
11	Investment and financing with customers	2,352,545	935,821	-
12	Sukuk and taskeek	175,271	-	-
13	Other exposures	1,461,078	-	-
	Total	16,913,613	2,469,181	

Eligible Collaterals and Banking Guarantees given against Credit Risk Exposure (continued)

2012 (KD'000)

Ser.	Credit Risk Exposures	Goss credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	444,262	-	-
2	Claims on sovereigns	1,422,286	3,839	-
3	Claims on public sector entities	70,588	-	-
4	Claims on banks	1,150,758	-	-
5	Claims on corporates	3,579,218	638,592	2,412
6	Regulatory retail exposures	2,565,826	253,741	142
7	Qualifying residential housing financing facilities	292,574	199,990	-
8	Past due exposures	431,002	227,223	-
9	Inventory and commodities	541,247	-	-
10	Real estate investment	872,131	-	-
11	Investment and financing with customers	2,477,522	1,014,536	-
12	Sukuk and taskeek	164,254	-	-
13	Other exposures	1,453,889	-	-
	Total	15,465,557	2,337,921	2,554

4.2. Market risk

Market Risk is the risk that the value of an asset or liability will fluctuate as a result of changes in market prices. In KFH, exposure arises from fluctuations in exchange rates, share prices, real estate prices and in the value of inventories and commodities. The market risks that the bank is exposed to are limited as all Islamic financing and investment transactions are interest free. Islamic finance contracts i.e. Mudarabah and Musharakah are based on profit and loss sharing. Other Islamic finance transactions are related to real economic transactions such as purchase and sale of merchandise through Murabahah, Istisnaa, Ijara or Salam transactions.

4.2.1 Market risk governance framework

Foreign exchange and commodity risk arising from KFH's Treasury activities are managed within Treasury. Equity price risk is managed within the Investment Department. The quantum of the exposures is measured and monitored by the risk management department and governed by the Asset and Liability Committee (ALCO) the activities of which are overseen by the Board Risk and Assets Committee. Real estate price risk arising from collateral pledged for financing facilities is managed by active monitoring of collateral values and topping up the collateral where the coverage of the debt is no longer acceptable to KFH.

4.3. Liquidity risk

Liquidity risk is the risk arising from the inability of the Bank to meet its obligations when due as a result of unavailability of funds at an economically viable price. Liquidity risk can arise from unexpected withdrawals of deposits or an inability to sell assets in the market due to absence of buyers.

4.3.1 Liquidity risk governance framework

Liquidity Risk Management in KFH is governed by the Liquidity Risk Management Framework. This sets specific responsibilities for Treasury Risk Management and Financial Control to measure, monitor and assess the Bank's funding requirements in the short and medium term under both normal operating and stressed conditions to ensure the availability of sufficient liquidity to meet its commitments (both expected and unexpected). The Bank has a contingency funding framework to bring in to operation where there is emerging evidence (based on triggers established in the Liquidity Risk Management Framework) of a future liquidity shortfall.

The Liquidity Risk Management Framework is the responsibility of the ALCO, which is in turn overseen by the Board Risk and Assets Committee.

4.4. Operational risks

Operational is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It also includes losses resulting from failure to comply with Shari'a's requirements. Operational risk includes therefore, the risks of theft or fraud, legal risks from failure of contracts, losses arising from damage to physical assets, failures in regulatory compliance leading to fines or intensive scrutiny, failure of IT systems or denial of service through external attacks on the banks operating and delivery processes.

4.4.1 Operational risk governance framework

Because operational risk arise from a multitude of processes, the primary focus of operational risk management is in developing awareness of operational weaknesses, strengthening the controls and installing additional risk mitigation where required. The Operational Risk Framework comprises a process for assessing risk based on likelihood of occurrence and severity of the impact if it does occur. The lessons learned from previous operational risk events also provide opportunities to strengthen controls. The Head of Operational Risk works with the business through a Group of operational risk coordinators to improve understanding of operational weaknesses and take preventative steps to mitigate the risk. The process is governed by the Operational Risk Committee which is overseen by the Board Risk and Assets Committee.

4.5. Reputation risk

The Bank defines reputation risk as risks arising from the negative perception by customers or other parties, such as shareholders, investors, employees or regulators that could adversely affect the Bank's ability to maintain current relationships or establish new relationships. In addition, given the Islamic nature of the Bank's activities, it is also exposed to the risk of reputation arising from non-adherence to Shari'a, which may lead to loss of customers.

Reputation Risk arises from a failure on the part of the bank to perform as expected by its relevant stakeholders. As such this risk is mitigated through monitoring and managing the primary operational processes of the bank.

4.6. Strategic risks

The Bank defines strategic risks as risks arising from changes in market conditions and the results of decisions of business units and strategies of competitors or inappropriate responses to market developments, which may lead to losing out on profitable investment opportunities. In addition, strategic risks also arise from failure to properly implement the strategic plan or from incorrect execution of the plan's objectives.

KFH's strategic plan was put in place after intensive cooperation from the Board of Directors and senior managment and is managed pro-actively. Any deviations from the plan are raised with senior management in order to take the necessary actions to achieve the stated objectives.

Fifth: Investment Accounts

The Bank receives deposits from customers as part of several unrestricted investment accounts "On Balance sheet" and restricted "Off Balance sheet"

In Unrestricted Deposits, these are invested by the bank as Mudarib investing funds for limited or renewable periods at various investment ratios. Funds are invested in all finance activities that will achieve targeted return. Investment returns are distributed among the bank as a Mudarib and investment account holders on proportionate basis for each type of these accounts and the elapsed investment period.

Kuwait Finance House acts as an investment agent in restricted deposits. Such funds are invested based on determined maturity periods in pre-determined investment and finance activities with customers (depositors). Certain fees are charged on the investment of such funds.

Customers' deposits are received and invested according to certain regulations that are mentioned in the procedures manual and instructions guide to ascertain that these funds whether they were in Kuwaiti Dinar or foreign currency are invested in accordance with Islamic Shari'a principles.

Sixth: Shari'a Regulations

Shari'a Control and Advisory Department (SCAD) is considered one of the main departments at Kuwait Finance House. The department monitors and executes Shari'a decisions issued by the Fatwa and Shari'a Supervisory Board as per certain rules and regulations approved by the Fatwa & Shari'a Supervisory Board at Kuwait Finance House. The Supervisory Board supervises the implementation of such regulations on daily operations and answers all inquiries concerning issued Shari'a decisions.

Certain Non- Shari'a compliant funds are realized from dealing with conventional banks and sale of un-owned in Murabahas. Entries, agreements, products and advertising material...etc are reviewed by Shari'a auditors through periodical review sessions conducted during the year. Such funds are deposited in certain accounts and spent in public affairs other than the construction of Mosques and printing of Quran as per the Fatwa and Shari'a Supervisory Board's opinion.

Shari'a Control and Advisory Department, represented by Shari'a Audit Unit, conducts audit on Kuwait Finance House activities. The Supervisory Board presents its report to the general assembly in its annual general assembly meeting.

In accordance with the Bank's Fatwa and Shari'a Supervisory Board approval 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 Shari'a Supervisory Board. Such Zakat is charged to voluntary reserve.

Auditor's Report & Consolidated **Financial Statements**

Kuwait Finance House K.S.C.P. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respect, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations issued by the Central Bank of Kuwait ("CBK") as stipulated in CBK Circular No. 2/RBA/44/2009 dated 15 June 2009 as amended, the Companies Law No. 25 of 2012, as amended, and by the Bank's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Capital Adequacy Regulations issued by the CBK as stipulated in CBK Circular No. 2/RBA/44/2009 dated 15 June 2009 as amended, the Companies Law No. 25 of 2012, as amended, or of the Bank's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2013 that might have had a matenal effect on the business of the Group or on its consolidated financial position.

We further report that, during the course of our audit, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the CBK and the organisation of banking business, and its related regulations during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

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

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

9 January 2014
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2013

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

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

MOHAMMED ALI AL-KHUDAIRI
(CHAIRMAN)

MOHAMMAD AL-OMAR
(CHIEF EXECUTIVE OFFICER)

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

Annual Report 2013
Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

KD 000's

	Attributable to equityholders of the Bank													*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Statutory reserve*	*Voluntary reserve*	*Employee share options reserve*	*Treasury shares reserve*	*Sub total*	*Profit for the year*	*Sub total*	*Proposed cash dividend*	*Sub total*		
At 1 January 2012	268,904	464,766	21,512	(46,813)	262,491	270,950	4,244	6,676	544,361	-	1,252,730	39,623	1,292,353	264,659	1,557,012
Issue of bonus shares (Note 28)	21,512	-	(21,512)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(5,095)	-	-	(5,095)	-	(5,095)	-	(5,095)	-	(5,095)
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(39,623)	(39,623)	-	(39,623)
Cancellation of share option	-	-	-	-	-	-	2	-	2	-	2	-	2	-	2
Profit for the year	-	-	-	-	-	-	-	-	-	87,676	87,676	-	87,676	35,646	123,322
Distribution of profit:															-
Proposed issue of bonus shares (Note 30)	-	-	29,042	-	-	-	-	-	-	(29,042)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(28,429)	(28,429)	28,429	-	-	-
Transfer to statutory reserve	-	-	-	-	9,087	-	-	-	9,087	(9,087)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	21,118	-	-	21,118	(21,118)	-	-	-	-	-
Additions on treasury shares (Note 28)	-	-	-	(7,215)	-	-	-	-	-	-	(7,215)	-	(7,215)	-	(7,215)
Non-controlling interests arising on a business combination (Note 4)	-	-	-	-	-	-	-	-	-	-	-	-	-	33,691	33,691
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,807)	(14,807)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,871)	(7,871)
At 31 December 2012	290,416	464,766	29,042	(54,028)	271,578	286,973	4,246	6,676	569,473	-	1,299,669	28,429	1,328,098	311,318	1,639,416

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

Annual Report 2013
Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013 (continued)

KD 000's

	Attributable to equityholders of the Bank													*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Statutory reserve*	*Voluntary reserve*	*Employee share options reserve*	*Treasury shares reserve*	*Sub total*	*Profit for the year*	*Sub total*	*Proposed cash dividend*	*Sub total*		
At 1 January 2013	290,416	464,766	29,042	(54,028)	271,578	286,973	4,246	6,676	569,473	-	1,299,669	28,429	1,328,098	311,318	1,639,416
Issue of bonus shares (Note 28)	29,042	-	(29,042)	-	-	-	-	-	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	-	(4,115)	-	-	(4,115)	-	(4,115)	-	(4,115)	-	(4,115)
Issue of shares for cash (Note 28)	63,892	255,567	-	-	-	-	-	-	-	-	319,459	-	319,459	-	319,459
Cash dividends paid	-	-	-	-	-	-	-	-	-	-	-	(28,429)	(28,429)	-	(28,429)
Profit for the year	-	-	-	-	-	-	-	-	-	115,893	115,893	-	115,893	33,173	149,066
Distribution of profit:															
Proposed issue of bonus shares (Note 30)	-	-	49,835	-	-	-	-	-	-	(49,835)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	-	-	-	-	-	(48,968)	(48,968)	48,968	-	-	-
Transfer to statutory reserve	-	-	-	-	12,006	-	-	-	12,006	(12,006)	-	-	-	-	-
Transfer to voluntary reserve	-	-	-	-	-	5,084	-	-	5,084	(5,084)	-	-	-	-	-
Additions on treasury shares (Note 28)	-	-	-	(23,059)	-	-	-	-	-	-	(23,059)	-	(23,059)	-	(23,059)
Disposal of treasury shares (Note 28)	-	-	-	20,969	-	-	-	-	-	-	20,969	-	20,969	-	20,969
Profit on sale of treasury shares (Note 28)	-	-	-	-	-	-	-	49	49	-	49	-	49	-	49
Non-controlling interest arising on a business combination (Note 4)	-	-	-	-	-	-	-	-	-	-	-	-	-	6,419	6,419
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(15,459)	(15,459)
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(18,502)	(18,502)
Increase in capital in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	21,296	21,296
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,249)	(3,249)
Net other change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	1,360	1,360
At 31 December 2013	383,350	720,333	49,835	(56,118)	283,584	287,942	4,246	6,725	582,497	-	1,679,897	48,968	1,728,865	336,356	2,065,221

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

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

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

1 - CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 9 January 2014. The general assembly of the equityholders of the Bank has the power to amend these consolidated financial statements after issuance.

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

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

The Bank operates through 60 local branches (2012: 56) and employed 2,537 employees as of 31 December 2013 (2012: 2,408) of which 1,522 (2012: 1,496) are Kuwaiti nationals representing 60% (2012: 62%) of the Bank's total work force.

2 - SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2013. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
- IAS 1 Clarification of the requirement for comparative information (Amendment)
- IAS 19 Employee Benefits (Revised)
- IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements
- IAS 27 Separate Financial Statements (as revised in 2011)
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurement

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated statement of income at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2013 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised)

Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The application of this did not have material impact on the consolidated financial position and performance.

IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's consolidated financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The application of this did not have material impact on disclosures in the consolidated financial statements.

IFRS 10 Consolidated Financial Statements

This standard replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" that addresses the accounting for consolidated financial statements. The standard establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The application of IFRS 10 did not have material impact on the consolidated financial position and performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

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

IFRS 11 replaces IAS 31 "Interests in Joint Ventures". The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. As a consequence of the new IFRS 11 and IFRS 12; IAS 28 has been renamed IAS 28 "Investments in Associates and Joint Ventures", and describes the application of the equity method to investments in joint ventures in addition to associates. For the impact of application of IFRS 11 on the Group level refer to note 14 and 15.

IFRS 12 Disclosure of Involvement with Other Entities

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities (Amended)

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

IFRS 9 Financial Instruments: Classification and Measurement

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

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

2.4 BASIS OF CONSOLIDATION

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

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

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Short-term murabahas

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

Receivables

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

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

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

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

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

Trading properties

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

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.

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

Financial assets available for sale

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

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

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

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

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

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

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

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

A disposal group qualifies as discontinued operation if it is:

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

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

Investment in associates and joint ventures

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)

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

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

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

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

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

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

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

Investment properties

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

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

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

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

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

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

Freehold land is not depreciated. Depreciation on the building is calculated using the straight-line method to allocate

their cost, net of their residual values, over their estimated useful lives that range from 20 – 40 years.

Properties under construction

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

Intangible assets

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

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

• license of Islamic brokerage company	assessed to have an indefinite useful lives
• 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 market price.

Trade receivable

Trade receivables that primarily relate to subsidiaries in businesses other than financing are carried at amounts due, net of amounts estimated to be uncollectible. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. This is included in other assets (Note 17).

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

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

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

Properties under development

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

Deferred tax

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

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

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

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

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

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

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

Available-for-sale (AFS) financial investments

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

In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below.

its original cost. Where there is evidence of impairment, the impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from fair value reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

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.

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

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

The following assets have specific characteristics for impairment testing:

Goodwill

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

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

Intangible assets

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

Derecognition of financial assets and financial liabilities

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

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

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

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

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

Financial guarantees

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

Currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts

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

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

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

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

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

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

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

Cash flow hedges:

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

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)

Cash flow hedges: (continued)

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

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

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

Hedges of a net investment:

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

Embedded swaps and profit rate contracts

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets available for sale

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

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

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

Currency swaps and profit rate swaps, forward foreign exchange contracts

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

Other financial assets and liabilities

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

Investment properties

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

IFRS 2 "Share-Based Payment"

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

Share-based payment transactions

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

Equity-settled transactions

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 2 "Share-Based Payment" (continued)

Equity-settled transactions (continued)

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

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

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

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

Taxation on overseas subsidiaries

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

Foreign currency translation

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

Transactions and balances

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

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

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

Group companies

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

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

Trade payable

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

Accrued expenses

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

Due from/to customers for contract work

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

Other provisions and reserves

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

Reserves for maintenance

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

Employees' end of service benefits

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

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

2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares (continued)

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:

Operating lease commitments – Group as lessor

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

Classification of real estate

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

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

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

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

Impairment of financial assets available for sale

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

Impairment of goodwill

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

Estimation uncertainty

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

Impairment losses on finance facilities

The Group reviews its problem finance facilities on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions

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required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

Valuation of unquoted equity investments

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

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

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined (see Note 13, 45). As a result, these investments are carried at cost less impairment.

Contingent consideration arising from business combinations

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

3 - GROUP INFORMATION

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

4 - BUSINESS COMBINATIONS AND ACQUSITION OF NON-CONTROLLING INTERESTS

Business combinations in 2012

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

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

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

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

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

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

Business combinations in 2012 (continued)

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

5 - INVESTMENT INCOME

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

6 - OTHER INCOME

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

7 - IMPAIRMENT

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

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

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

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

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

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

9 - CASH AND CASH EQUIVALENTS

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

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

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

	2013 KD 000's	2012 KD 000's
Due from banks and financial institutions	117,226	492,388
Due to banks and financial institutions	(113,807)	(311,819)
	3,419	180,569

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

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

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

10 - SHORT-TERM MURABAHA

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

11 - RECEIVABLES

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

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

The distribution of receivables is as follows:

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

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

11 - RECEIVABLES (continued)

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

KD 000's

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

Non performing cash and non-cash financing facilities

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

KD 000's

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

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

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

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

12 - LEASED ASSETS

The net investment in leased assets comprises the following:

KD 000's

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

Impairment on leased assets is as follows:

KD 000's

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

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

KD 000's

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

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

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

13 - FINANCIAL ASSETS AVAILABLE FOR SALE

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

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

14 - INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

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

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

Summarised financial position:

	2013	2012
		KD 000's
Assets	2,610,014	3,287,128
liabilities	(1,658,637)	(2,368,599)
Equity	951,377	918,529
Carrying amount of the investment	267,660	240,423

Summarised statement of income:

	2013	2012
Revenues	331,243	354,697
Expenses	(282,061)	(340,325)
Profit for the year	49,182	14,372
Group's share of profit for the year	10,851	3,440

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

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

15 - INTEREST IN JOINT VENTURES

The major joint ventures of the Group are as follows:

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

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

Summarised financial position:

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

Summarised statement of income:

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

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

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

Impact on the consolidated statement of income:

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

16 - INVESTMENT PROPERTIES

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

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

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

16 - INVESTMENT PROPERTIES (continued)

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

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

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

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

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

17 - OTHER ASSETS

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

18 - INTANGIBLE ASSETS

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

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

19 - PROPERTY AND EQUIPMENT

KD 000's

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

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	Land	Buildings	Aircraft and engines	Furniture, fixtures and equipment	Motor vehicles	Properties under development	2012 Total
Cost:							
At 1 January 2012	18,406	75,203	698,387	159,571	37,868	32,724	1,022,159
Additions	2,168	18,648	1,372	24,947	18,150	8,886	74,171
Disposals	(1,809)	(11,043)	(2,867)	(3,378)	(27,820)	-	(46,917)
Transfer to investment properties (Note 16)	-	-	-	-	-	(739)	(739)
At 31 December 2012	18,765	82,808	696,892	181,140	28,198	40,871	1,048,674
Accumulated depreciation:							
At 1 January 2012	-	38,997	105,977	100,536	9,519	-	255,029
Depreciation charge for the year	-	14,842	28,898	18,980	3,602	-	66,322
Relating to disposals	-	(1,117)	(1,830)	(4,591)	(7,096)	-	(14,634)
Impairment loss charged for the year (Note 7)	-	1,099	7,182	-	-	-	8,281
At 31 December 2012	-	53,821	140,227	114,925	6,025	-	314,998
Net carrying amount:							
At 31 December 2012	18,765	28,987	556,665	66,215	22,173	40,871	733,676

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

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

One of the subsidiaries holds a fleet of aircraft with carrying value of KD 540,315 thousand (2012: KD 466,611 thousand) acquired under finance leases with the legal title of the aircraft being retained by the lender. The aircraft are secured against the finance leases. The residual value of the aircraft is estimated at approximately 21% (2012: 21%) in aggregate of the purchase cost of the aircraft fleet.

The gross carrying value of fully depreciated property and equipment still in use at the financial position date is KD 70,094 thousand (2012: KD 58,501 thousand).

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

KD 000's

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

20 - LEASEHOLD RIGHTS

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

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

21 - DISCONTINUED OPERATIONS

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

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

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

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

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

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

The net cash flows incurred are as follows:

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

22 - SUBSIDIARIES

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

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

22.2 Material partly-owned subsidiaries

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

Proportion of equity interest held by non-controlling interests:

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

Accumulated balances of material non-controlling interests:

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

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

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

Summarised consolidated statement of income for 31 December 2013:

KD 000's

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

Summarised consolidated statement of income for 31 December 2012:

KD 000's

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

Summarised statement of financial position as at 31 December 2013:

KD 000's

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

Summarised statement of financial position as at 31 December 2012:

KD 000's

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

22 - SUBSIDIARIES (continued)

22.2 Material partly-owned subsidiaries (continued)

Summarised cash flow information for year ending 31 December 2013:

KD 000's

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

Summarised cash flow information for year ending 31 December 2012:

KD 000's

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

23 - DUE TO BANKS AND FINANCIAL INSTITUTIONS

KD 000's

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

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

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

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

KD 000's

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

24 - DEPOSITORS' ACCOUNTS

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

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

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

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

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

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

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

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

25 - OTHER LIABILITIES

KD 000's

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

26 - FAIR VALUE RESERVE

Changes in the fair value of financial assets available for sale, currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts are reported in the fair value reserve. Other reserves represent change in the ownership interest in subsidiaries without loss of control. Management of the Bank is of the opinion that these reserves are attributable to both the depositors and equityholders. As a result, the reporting of these reserves as a separate item on the consolidated financial position enables a fairer presentation than its inclusion within equity attributable to the equityholders of the Bank.

KD 000's

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

27 - FOREIGN EXCHANGE TRANSLATION RESERVE

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

28 - SHARE CAPITAL AND SHARE PREMIUM

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

KD 000's

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

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

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

Treasury shares and treasury share reserve.

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

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

Movement in treasury shares was as follows:

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

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

29 - RESERVES

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

As a result, an amount of KD 12,006 thousand equivalent to approximately 10% (2012: KD 9,087 thousand equivalent to approximately 10%), of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support tax, Zakat and Directors' fees) has been transferred to statutory reserve to reach KD 283,584 thousand (2012: KD 271,578 thousand).

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

An amount of KD 5,084 thousand equivalent to 4% (2012: KD 21,118 thousand equivalent to 23%) of the profit for the year attributable to the equityholders of the Bank (before contribution to Kuwait Foundation for the Advancement of Sciences, Directors' fees, Zakat and National Labor Support tax) has been transferred to voluntary reserve to reach KD 287,942 thousand (2012: KD 286,973 thousand).

The share premium balance is not available for distribution.

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

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

KD 000's

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

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

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

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

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

31 - CONTINGENCIES AND CAPITAL COMMITMENTS

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

KD 000's

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

KD 000's

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

32 - CURRENCY SWAPS, PROFIT RATE SWAPS, FORWARD FOREIGN EXCHANGE AND FORWARD COMMODITY CONTRACTS

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

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

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

At 31 December 2013, the Group held currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts designated as hedges of expected future collections from hedged items in foreign currency and variability in profit rate.

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

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

KD 000's

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

KD 000's

	Positive fair value	Negative fair value	Notional amount	Notional amounts by term to maturity		
				Within 3 months	3 to 12 months	More than 12 months
31 December 2012						
Cash flow hedges						
Forward contracts	15	(151)	60,340	33,798	26,542	-
Currency swaps	655	(159)	27,091	-	-	27,091
	670	(310)	87,431	33,798	26,542	27,091
Not designated as hedges						
Forward contracts	4,029	(1,077)	197,255	134,352	62,903	-
Profit rate swaps	1,959	(1,528)	25,599	-	-	25,599
Currency swaps	2,166	(100)	238,658	138,032	100,626	-
Embedded precious metals	-	(91)	230,637	230,637	-	-
	8,154	(2,796)	692,149	503,021	163,529	25,599
	8,824	(3,106)	779,580	536,819	190,071	52,690

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

KD 000's

	Notional amount	Within 3 months	3 to 12 Months	More than 12 months
31 December 2013				
Cash inflows	853,705	483,255	199,507	170,943
Cash outflows	(658,491)	(483,795)	(118,653)	(56,043)
Net cash flows	195,214	(540)	80,854	114,900
31 December 2012				
Cash inflows	779,580	536,819	190,071	52,690
Cash outflows	(774,172)	(533,516)	(188,416)	(52,240)
Net cash flows	5,408	3,303	1,655	450

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

33 - RELATED PARTY TRANSACTIONS

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

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

KD 000's

	Major shareholders	Associates	Board Members and Executive Officers	Other related party	Total 2013	Total 2012
Financing income	-	3,497	1,707	2,774	7,978	5,898
Gain on sale of investment properties	26,448	-	-	-	26,448	-
Fee and commission income	-	88	-	845	933	763
Finance costs	8,183	54	-	239	8,476	8,788

33 - RELATED PARTY TRANSACTIONS (continued)

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

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

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

	The number of Board Members or Executive Officers 2013	The number of Board Members or Executive Officers 2012	The number of related parties 2013	The number of related parties 2012	KD 000's 2013	KD 000's 2012
Board Members						
Finance facilities	22	25	2	2	8,372	15,411
Credit cards	8	7	3	3	14	53
Deposits	49	60	44	39	7,247	4,825
Collateral against financing facilities	9	11	-	-	17,744	20,342
Executive officers						
Finance facilities	24	33	5	6	4,026	5,061
Credit cards	10	12	1	4	32	30
Deposits	48	43	41	56	2,799	4,236
Collateral against finance facilities	16	27	3	1	7,512	7,600

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

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

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

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

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

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

34 - SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

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

34 - SEGMENTAL ANALYSIS (continued)

31 December 2012	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
					KD 000's
Total assets	2,938,301	3,838,578	6,395,987	1,530,435	14,703,301
Total liabilities	2,427,035	58,995	9,277,862	618,619	12,382,511
Income	52,711	112,230	660,047	103,815	928,803
Impairment	(3,034)	(62,946)	(181,824)	(3,547)	(251,351)
Finance costs	(23,464)	(23,879)	-	(11,794)	(59,137)
Profit before distribution to depositors	20,889	11,020	280,866	(15,168)	297,607

Secondary segment information

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

KD 000's

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

KD 000's

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

35 - CONCENTRATION OF ASSETS AND LIABILITIES

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

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

KD 000's

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

b) The distribution of liabilities was as follows:

KD 000's

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

36 - FOREIGN CURRENCY EXPOSURE

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

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

37 - RISK MANAGEMENT

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

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

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

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

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

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

a) Risk management structure

Board of Directors

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

Risk management committee

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

Risk management unit

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

Credit Committee

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

Assets and Liabilities Committee

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

Treasury

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

b) Risk management and reporting systems

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

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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.

38 - Credit Risk

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

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

Credit-related commitments risks

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

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross (net of impairment), before the effect of mitigation through the use of master netting and collateral agreements.

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

38 - Credit Risk (continued)

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

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

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by counterparty by geographical region and by industry sector. The maximum credit exposure to a single counterparty as of 31 December 2013 was KD 200,339 thousands (2012: KD 100,414 thousands) before taking account of collateral which is fully covered by real estate collateral.

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

KD 000's

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

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

KD 000's

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

Credit quality per class of financial assets

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

KD 000's

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

KD 000's

	Neither past due nor impaired			
	High grade	Standard grade	Past due or impaired	Total
31 December 2012				
Receivables:				
International murabahas	450,665	1,575,235	90,202	2,116,102
Local murabahas and wakala	-	3,677,922	743,009	4,420,931
Istisna'a and other receivables	282	70,762	44,841	115,885
	450,947	5,323,919	878,052	6,652,918
Leased assets (Note 12)	-	1,303,864	349,646	1,653,510
Financial assets available for sale – sukook (Note13)	272,084	316,771	14,063	602,918
	723,031	6,944,554	1,241,761	8,909,346

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

KD 000's

	Less than 30 days	31 to 60 days	61 to 90 days	Total
31 December 2013				
Local murabahas	254,708	80,081	95,900	430,689
Istisna'a and other receivables	51,803	624	21,230	73,657
Leased assets	74,486	34,673	34,391	143,550
	380,997	115,378	151,521	647,896
31 December 2012				
Local murabahas	287,592	168,986	128,807	585,385
Istisna'a and other receivables	38,011	639	1,931	40,581
Leased assets	31,151	24,274	82,362	137,787
	356,754	193,899	213,100	763,753

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

Credit risk exposure for each internal credit risk rating.

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

Collateral

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

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

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

The fair value of collateral that the Group holds relating to finance facilities individually determined to be impaired at 31 December 2013 amounts to KD 735,865 thousand (2012: KD 326,943 thousand).

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

39 - LIQUIDITY RISK

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

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

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash and short term murabaha. The ratio during the year was as follows:

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

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

The maturity profile of assets and undiscounted liabilities at 31 December 2013 is as follows:

KD 000's

	Within 3 months	3 to 6 months	6 to 12 months	After one year	Total
Assets					
Cash and balances with banks and financial institutions	1,070,486	-	-	-	1,070,486
Short-term murabaha	2,431,742	-	-	-	2,431,742
Receivables	583,180	1,116,700	1,387,540	3,412,880	6,500,300
Trading properties	7,263	215,667	3,499	62,499	288,928
Leased assets	547,177	345,387	631,231	414,684	1,938,479
Financial assets available for sale	22,666	50,508	3,337	1,139,312	1,215,823
Investments in associates and joint ventures	-	-	-	617,594	617,594
Investment properties	-	-	-	524,342	524,342
Other assets	152,072	104,733	35,318	198,609	490,732
Intangible assets	242	158	15,405	41,293	57,098
Property and equipment	-	-	-	812,593	812,593
Leasehold rights	-	-	-	125,320	125,320
Assets classified as held for sale	-	-	66,353	-	66,353
	4,814,828	1,833,153	2,142,683	7,349,126	16,139,790
Liabilities					
Due to banks and financial institutions	1,117,522	506,898	302,427	541,679	2,468,526
Depositors' accounts	6,617,946	455,812	193,474	2,836,754	10,103,986
Other liabilities	141,828	28,457	39,981	538,474	748,740
Liabilities directly associated with assets classified as held for sale	-	-	13,587	-	13,587
	7,877,296	991,167	549,469	3,916,907	13,334,839

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The maturity profile of assets and undiscounted liabilities at 31 December 2012 is as follows:

KD 000's

	Within 3 months	3 to 6 months	6 to 12 months	After one year	Total
Assets					
Cash and balances with banks and financial institutions	814,256	-	-	-	814,256
Short-term murabaha	1,185,723	-	-	-	1,185,723
Receivables	1,309,569	956,013	1,104,778	3,282,558	6,652,918
Trading properties	1,636	209,067	7,854	37,368	255,925
Leased assets	451,405	270,594	613,483	318,028	1,653,510
Financial assets available for sale	58,335	6,561	54,264	1,129,612	1,248,772
Investments in associates	-	-	-	580,320	580,320
Investment properties	-	-	-	557,264	557,264
Other assets	462,265	92,533	37,964	259,306	852,068
Intangible assets	-	-	-	42,772	42,772
Property and equipment	-	-	-	733,676	733,676
Leasehold rights	-	-	-	126,097	126,097
	4,283,189	1,534,768	1,818,343	7,067,001	14,703,301
Liabilities					
Due to banks and financial institutions	1,500,816	161,663	282,715	309,656	2,254,850
Depositors' accounts	6,022,441	409,692	209,532	2,751,011	9,392,676
Other liabilities	87,172	130,080	185,017	332,716	734,985
	7,610,429	701,435	677,264	3,393,383	12,382,511

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

KD 000's

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

KD 000's

	On demand	Less than 3 Months	3 to 12 Months	1 to 5 years	Over 5 years	Total
2012						
Contingent liabilities	419,241	295,931	270,616	351,723	92,278	1,429,789
Capital commitments	371,068	-	3,850	249,251	1,078,018	1,702,187
Total	790,309	295,931	274,466	600,974	1,170,296	3,131,976

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

40 - MARKET RISK

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

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

Non-trading market risk

Interest rate risk

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

Currency risk

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

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Kuwaiti Dinar, with all other variables held constant on the profit and the fair value reserve (due to the change in fair value of financial assets available for sale).

KD 000's

	2013			2012		
Currency	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*	*Change in currency rate %*	*Effect on profit*	*Effect on fair value reserve*
U.S. Dollars	+1	2,732	6,784	+1	3,130	1,579
Sterling Pounds	+1	113	46	+1	130	160

Equity price risk

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

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

KD 000's

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

Operational risk

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

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

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

Country risk

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

41 - CAPITAL MANAGEMENT

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

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

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

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

KD 000's

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

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

42 - MANAGEMENT OF PURCHASED DEBTS

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

43 - FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group uses primary financial instruments such as cash and balances with or due to Banks and other financial institutions, investments, receivables and payables. The Group also uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts for hedging purposes. Information about fair values of financial assets and liabilities are disclosed in note 45 of the consolidated financial statements.

44 - FIDUCIARY ASSETS

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

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

45 - FAIR VALUES

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

Level 1: quoted (unadjusted) prices in active markets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

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

Description of significant unobservable inputs to valuation:

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

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

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

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

KFH Corporate **Governance Manual**

Corporate Governance Manual

Introduction

The Board, Senior Management and all employees of Kuwait Finance House (KFH / the "Bank") are committed to effective Corporate Governance and to observing the highest standard of behaviour and conduct.

KFH is committed to promoting integrity and maintaining the highest standard of ethical conduct in all of its activities.

Principles of Sound Corporate Governance

Corporate Governance is a system of rules, practices and processes by which an organization is directed and controlled. Corporate Governance balances the interest of all stakeholders in an organization, including customers, management employees, financiers, government and the community. It establishes the responsibilities and duties of the board of Directors and Senior Management in an organization taking into account protection of shareholders and stakeholders rights.

This Framework includes:

- The contract between the Bank and the shareholders and stakeholders
- The distribution of responsibilities
- The procedure for reconciling conflict between the interests of stakeholders
- The procedures for proper supervision, control, and information

The key elements of sound corporate governance are:

- Transparency: Make information widely-known and/or available
- Accountability: Expected to justify actions and/or decisions
- Equity: The act of being fair and neutral
- Probity: The quality of being honest and ethical

Corporate Governance at KFH

In June 2012, the Central Bank of Kuwait (CBK) has issued a set of instructions on corporate governance for local banks in Kuwait. The instructions include updates and development of previous CBK corporate governance standards taking into account the lessons learnt from the recent global financial crisis, new corporate governance guidelines issued in this respect and in particular the Basel Committee's paper titled "Principles for Enhancing Corporate Governance" issued in October 2010, the principles issued by the Financial Stability Board (FSB) on remuneration schemes and the recommendations contained in the World Bank report issued in late 2010 concerning assessment of corporate governance standards at Kuwaiti banks, as well as the principles applied in some countries in the region.

In its new instructions, the CBK takes into account the structure of the Kuwaiti banking sector, the basic characteristics of the Kuwaiti economy and its integration with global economy as well as other factors that underline the critical importance of corporate governance at Kuwaiti banks.

Corporate Governance at KFH includes the following pillars (in line with the CBK instructions):

Pillar 1: Board of Directors

Pillar 2: Corporate Values, Conflict of Interest and Group Structure

Pillar 3: Senior and Executive Management

Pillar 4: Risk Management & Internal Controls

Pillar 5: Remuneration Policies and Procedures

Pillar 6: Disclosure and Transparency

Pillar 7: Banks with Complex Corporate Structures

Pillar 8: Protection of Shareholders' Equities

Pillar 9: Protection of Stakeholders' Rights

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The following pages include a brief on each Pillar and the steps taken by KFH to implement the requirements under each Pillar in order to comply with the CBK instructions and promote good governance within KFH.

Pillar 1: Board of Directors

The Board's Overall Responsibility

The Board of Directors assumes overall responsibility for KFH, including approving and overseeing the implementation of KFH's strategic objectives, risk strategy, corporate governance standards and corporate values. The Board is also responsible for providing oversight of KFH's senior management including the CEO.

The Board assumes ultimate responsibility for KFH's business and its financial soundness, fulfilment of Central bank of Kuwait requirements, protecting the legitimate interests of shareholders, depositors, creditors, staff and stakeholders and ensuring that KFH is managed in a prudent manner and within the framework of applicable laws and regulations and the internal policies and procedures of KFH.

Oversight of Executive Management

The Board appoints a Chief Executive Officer (CEO) with probity, technical competency and banking experience for KFH. Approval of the Board is also obtained prior to appointment of all executive management positions reporting to the CEO or the Chairman of the Board.

The Board oversees KFH's executive management in order to ensure they carry out their assigned roles in line with KFH's objectives and targets and the policies approved by the Board.

Separation between the Chairman and the CEO Positions

The Board should clearly separate between the positions of the Chairman of the Board from that of the Chief Executive Officer, also ensuring that occupants of both positions should not be first kin relatives, or have any relationship or connection, in a way that may affect the independency of decisions taken by each.

Succession Plans

The Board ensures that HR Department has succession plans in place for the executive positions in KFH and that such plans are effectively implemented within KFH.

Board Composition

KFH's Board of Directors should have an adequate number and appropriate composition of Board members to enable KFH form the necessary number of Board standing Committees in conformity with the sound governance standards of the CBK.

Role of the Board Chairman

Given the importance of this role, the Chairman ensures the proper functioning of the Board activities and maintains a relationship of trust with the Board members. The Chairman also ensures that Board decisions are taken on a sound and well-informed basis through proper discussion and dialogue. He should enhance the discussions and seek to exchange the points of view within the Board so that the adequate information is disseminated to all Board members and shareholders in a timely fashion.

The Chairman establishes and maintains a constructive relationship between the Board and the senior management of KFH and ensures that KFH has sound corporate governance standards in place.

Organization and Functioning of the Board

The Board convenes as often as it deems fit but at least 6 times a year with a minimum of one meeting every quarter. The decisions adopted as per the minutes of the meetings shall be mandatory and constitute part of KFH's records.

The Chairman of the Board, in consultation with the senior executive management, commences discussions in respect of the important topics to be included on the agenda of each Board meeting and ensures that the Board members are provided with sufficient and comprehensive information well before each Board meeting so as to be able to make informed decisions.

The Board Secretary takes record of all Board discussions, suggestions by the Board members and results of voting conducted in the Board meeting sessions.

The responsibilities of the Board Chairman and members should be defined in writing so that they do not conflict with the relevant legislations and regulations.

Board Secretary

The overall role of the Board Secretary is to assist the Board and its Chairman in running the Board affairs including but not limited to:

- Ensuring timely development of Board agendas in conjunction with the Chairman and CEO.
- Coordinating, organizing and attending Board and shareholder meetings.
- Drafting and maintaining minutes and drafts of Board minutes of meetings.
- Carrying out any instructions adopted by the Board.
- Ensuring compliance with all statutory requirements in relation to Board affairs.

Board Members Authorities

- To receive all available information to be discussed at a meeting, prior to that meeting.
- To give adequate time to consider and debate issues.
- To have access to relevant and reliable information and be entitled to obtain such resources and information from KFH, including direct access to employees through adequate channels if so they may require.
- Any Director or Committee of the Board may, with the prior approval of the Chairman of the Board, seek independent legal or other professional advice at KFH's expense to assist them in the proper performance of their duties towards KFH and the shareholders.

Delegation of Authority

The Board of Directors has delegated the task of running the day to day operations of KFH to KFH's senior management headed by the CEO under a written delegation of financial and operational authorities.

KFH has clearly set out all banking transactions that cannot be delegated to KFH's senior management or the CEO and that require the Board's approval.

Qualifications of Board Members

KFH should have qualified and experienced members on the Board of Directors as well as the various Board Committees in order to serve the best interests of KFH and its various shareholders and stakeholders. The Board Nomination & Remuneration Committee (NRC) assists the Board in the selection / appointment of Directors for the Board and its Committees by setting the basic criteria for such memberships. Such criteria are aimed at creating a Board that would be capable of challenging, stretching and motivating management to achieve sustained, outstanding performance in all respects.

Board members should and continue to be qualified, through training related to their positions and tasks. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of KFH.

Ongoing Training & Development

The Board members, through regular training and participation in conferences and seminars, should develop their skills and experiences in finance and banking business in line with the most recent future visions of the risks KFH may encounter in a dynamically developing environment.

Effectiveness

The Board of Directors is to review and assess, at least once annually, its performance and the performance of its individual directors and Committees it appoints.

Pillar 2: Corporate Values, Conflict of Interest and Group Structure

Corporate Ethics & Values

The Board of Directors through the Code of Conduct and Business Ethics defines appropriate governance practices for its own works and establishes the means to ensure that such practices are followed and periodically reviewed for ongoing improvement purposes. The Board takes the lead in establishing and in setting professional standards and corporate values that promote integrity within KFH, for itself, senior management and other employees in a way that restricts the use of internal information of KFH for private interests. It also establishes the proper mechanism for handling the customers' complaints.

The Code of Conduct and Business Ethics shall be circulated to all KFH staff and Board members, whose signatures are to be obtained as an acknowledgment to abide by the contents contained therein. KFH should publish the Code on its website as stated in the appendices of this manual.

Conflict of Interest

The Board should have a formal written Conflict of Interest Policy covering all conflicts of interest-related matters and possibilities thereof including, but not limited to:

- a member's duty to avoid activities that could create conflicts of interest;
- procedures to keep harmless KFH Board members or employee against the exercise of undue influence;
- secure Board approval on any activity a Board member is engaged in to ensure that such activity will not create a conflict of interest;
- a member's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
- a member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity or ability to properly fulfill duties to the Bank may be otherwise compromised; and
- dequate procedures for transactions with related parties to be made on an arms-length basis, and the way in which the Board will deal with any non-compliance with such Policy.

Related Parties

KFH should have in place a written policy for Related Party Transactions which includes the rules and procedures regulating operations with related parties. KFH keeps records of all related party transactions and keeps them under appropriate audit.

KFH must determine its related parties based on the definition of such parties under the International Accounting Standards (IAS), and keeps updated records of these parties in order to control any transaction with them. All related party transactions are disclosed in accordance with IAS and applicable IFRS in this regard and as required by the local regulatory or governmental authorities including the CBK.

Banking Confidentiality

Banking confidentiality receives the highest priority as a cornerstone banking business and dealings with customers, whether depositors, borrowers, investors or otherwise, as well as other stakeholders.

KFH has developed various policies on keeping the confidentiality of banking business, provide for the following as a minimum:

- The need that Board members and KFH's staff keep confidential information and Bank-Client data, and the information and data of the clients of other banks, which may become known to the employees due to their work nature.
- Non-disclosure of any information or data of KFH or its clients unless by the authorized persons, and to the extent allowed by KFH's internal policies, laws and regulations.
- Maintaining the security of the information pertaining to KFH and its clients and setting the regulatory controls to prevent access to the same by anyone save the authorized persons. KFH's Board of Directors establishes the control systems to restrict access to information and data only to the authorized persons, and ensures that such controls prevent leakage of any banking information that would breach or blemish banking confidentiality.
- The need that the Board of Directors and senior management recognize their responsibility for developing security awareness in KFH in a way that enhances and maintains banking confidentiality.
- Banking confidentiality policies shall assert the importance of not using any information about KFH's conditions which may be available to a Board member or any of KFH's staff for serving personal interests or the interests of other related parties.
- KFH's Internal Audit function monitors the proper implementation of all such policies.

Group Structures & Parent Bank Board

The Board of KFH has the overall responsibility for adequate corporate governance across the Group and ensures that there are governance policies and mechanisms appropriate to the structure, business and risks of the Group and its entities. It also evaluates such policies on regular basis to keep them in line with the growth, complexity and geographic expansion and develops the appropriate means to ensure that all affiliates comply with all the applicable governance requirements.

Board Committees

The Board, without abdicating its own responsibility, shall form the following standing Committees to increase the efficiency of its control over KFH's key operations. This does not release the Board from its direct responsibility for all the relevant issues. The Board committees include the following:

1. Audit Committee
2. Risk & Assets Committee
3. Nomination & Remuneration Committee
4. Governance Committee

The Chairman of the Board may not be a member of the Audit, the Risk & Assets, and the Nomination & Remuneration Committees.

Nomination & Remuneration Committee

The NRC assists the Board in nominating members to each of the Committee based on its criteria for membership on each committee and to ensure that there is sufficient number of non-executive directors present on each committee to ensure independency of their decisions. The Committee should be formed from the Board members and should include three non-executive members at least including the Committee Chairman.

Each Committee has a Charter setting out its responsibilities, including:

- qualifications for membership
- frequency of meetings
- committee authorities
- reporting to the Board

Responsibilities of the Nomination & Remuneration Committee include:

- Giving recommendations to the Board regarding the nomination for Board membership in accordance with the approved policies and standards as well as CBK instructions in this regard.
- Conducting an annual review on the required appropriate skills for Board membership and preparing a description of the capabilities and qualifications required for membership and conducting an annual review on the Board structure and giving recommendations about the proposed changes serving KFH's interests.
- Conducting an annual assessment of the Board overall performance and performance of each individual Board member. This assessment covers the expertise and knowledge of the Board members, assessment of their powers and authorities and their leadership qualifications.
- Providing information and briefs about certain critical issues in relation to KFH and submitting reports and information to the Board members, in addition to ensuring that Board members are continuously updated with the latest banking business related affairs. For this purpose, the Board should attend the specialized scientific seminars and conferences in the field of banking and financial business.
- Controlling remuneration system and policies as per the details referred under Pillar 5 in page 181 hereunder.

Pillar 3: Senior Executive Management

Senior management comprises a core group of experienced and qualified individuals including the CEO, other C-level staff, GMs and Executive Managers who are responsible and held accountable for overseeing the management of KFH.

Under the direction of the Board of Directors, the senior executive management ensures that KFH's activities are consistent with the business strategy, risk appetite and policies approved by the Board. The Board depends on the senior management's competency in implementing the Board's resolutions/decisions without any direct interference by the Board.

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Senior executive management should contribute substantially to KFH's sound corporate governance through personal conduct and by providing adequate oversight of the activities they manage. Senior executive management is responsible for delegating duties to staff members and and establishing a management structure that promotes accountability and transparency.

Senior executive management is responsible for supervision and control over KFH's business, particularly with respect to ensuring compliance and risk control as well as creating appropriate systems to manage financial and no-financial risks in line with Board of Directors directives, independence of functions and segregation of duties. Senior executive management should provide the Board with periodic transparent and objective financial and administrative reports at least once bi-monthly.

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible to the Board of Directors for the overall management and performance of KFH.

The CEO manages KFH in accordance with the strategy, plans and policies as approved by the Board of Directors.

The CEO responsibilities include the following:

- Executing KFH's strategic and operational plans as approved by the Board
- Referring transactions outside of his delegated authority to the Board
- Ensuring that all actions comply with KFH's policies and with the Law
- All functions delegated to him by the Board

The performance of the CEO is to be reviewed by the Board on an annual basis. The remuneration of the CEO is to be considered by the Nominations and Remuneration Committee and a recommendation made to the Board following the annual review of performance.

A CEO, who is appointed as an executive director, will not be entitled to a Director's allowances in addition to the remuneration applicable to the position of CEO.

Pillar 4: Risk Management & Internal Controls

Internal Controls Systems

KFH has established efficient and effective internal controls systems and risk management processes.

The Board of Directors should approve KFH's organizational structure to be consistent with KFH's strategy and activities, job descriptions with detailed roles and responsibilities, and formal policies and procedures for all banking functions and processes, the implementation of which is monitored by Internal Audit. Such policies and procedures determine the duties and responsibilities of each function, the authorities and reporting lines on different management levels in a way that realizes dual control and segregation of duties in order to avoid conflict of functions.

KFH conducts an annual Internal Controls Review (ICR) through certified independent auditors other than KFH's external auditors to ensure the adequacy of the internal control systems.

KFH's Whistleblower Policy has set procedures enabling employees to communicate their concerns regarding potential violations . KFH ensures that whistleblowers are sufficiently protected and that they are not subject to any threats or penalties in case their legitimate concerns are proved incorrect.

Risk Management

The Board and the Board Risk & Assets Committee (BRAC) have established comprehensive policies on risk oversight and management. Such policies describe roles and responsibilities of the Board, the BRAC, the Chief Risk Officer (CRO), the management and the Internal Audit function.

The CRO is responsible for KFH's risk management function and has direct access to the Board Chairman and the Chairman of the BRAC. The CRO has the authority to influence KFH's decisions pertaining to exposure to risks. The CRO responsibility shall not relieve the Board of Directors of the ultimate responsibility. The CRO is independent and not associated with any financial responsibility and cannot be dismissed or removed from his position for any reason without the prior approval of the Board and the CBK.

The Risk Management function is responsible for identifying, measuring, monitoring, controlling, mitigating risks and reporting on risk exposures at KFH. While the Risk Management function is independent of the other business units, it has access to all internal and external business lines, so as to understand them or request certain related information to assess exposures in an appropriate manner.

Risk & Assets Committee

The Board Risk & Assets Committee (BRAC) reports to the Board and comprises three non-executive Board members including the Committee Chairperson. This Committee is responsible for:

- Advising the Board on KFH's present and future risk strategy and appetite and monitoring senior management implementation of this strategy.
- Ensuring proper setup of KFH-wide risk management framework including risk strategies, appetite, policies and procedures, and tools and methodologies.
- Review and approve, within its discretionary authority limits, decisions related to the deployment of the assets of KFH (namely credit and investment deals).

The BRAC shall review Risk Management policies and strategies prior to the Board's approval. Senior management shall be responsible for implementing these strategies in addition to developing the policies and procedures for managing all types of risks.

The executive management in KFH shall propose risk management structure, role, responsibilities and methods of development, provided that the structure and role are reviewed by the BRAC prior to the Board's approval.

The CRO presents reports directly to the Chairman of the BRAC.

Internal Audit

KFH has in place an independent Internal Audit function headed by the Head of Internal Audit, through which the Board, senior management, and stakeholders are provided with reasonable assurance that its key organization and procedural controls are effective, appropriate, and complied with. Internal Audit has access to any information or any staff member at KFH as well as the full authority to perform the tasks assigned to Internal Audit. However, the internal audit employee may not perform any executive responsibilities.

The Head of Internal Audit is appointed as per the Board's approval and reports to the Audit Committee.

The scope and particulars of an effective organizational and procedural controls system shall be based on the following factors: the nature and complexity of business and the business culture; the volume, size and complexity of transactions; the degree of risk; the degree of centralization and delegation of authority; the extent and effectiveness of information technology; and the extent of regulatory compliance.

The key responsibilities of the Internal Audit function include the following:

- Verifying the adequacy and effectiveness of internal control systems and ensuring that the internal control systems pertinent to financial and administrative issues are rather comprehensive and are being reviewed in timely manner.
- Verifying that KFH's internal policies are in full compliance with the relevant laws, policies, regulations and instructions.
- Examining particular business activities relating to KFH's financial position, internal control systems, risk management and others.

KFH shall not outsource any of the basic internal audit roles. In the event where KFH needs to outsource certain audit tasks to external parties for a specific period of time, the CBK's approval will be sought.

External Audit

An external auditor shall enable an environment of good corporate governance as reflected in the financial records and reports of KFH. An external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit Committee and the Board of Directors.

The Audit Committee has set appropriate standards to ensure that the external audit process is carried out by applying the Dual Audit methodology.

The external auditor shall provide the Audit Committee with a copy of the audit reports and will meet with the Audit Committee to discuss these reports and any other significant observations on KFH's issues in the presence of the executive management. The Audit Committee shall meet with the external auditor without the presence of the executive management at least once a year.

The external audit office should abide by and observe the instructions issued by the regulatory authorities (Central Bank of Kuwait – Capital Markets Authority – Ministry of Commerce and Industry).

The external auditor of KFH shall not provide services of an internal auditor to KFH. KFH shall ensure that other non-audit works shall not be in conflict with the functions of the external auditor.

The audit firm's partner in charge of KFH's audit shall be rotated every four (4) years or earlier.

Audit Committee

The Audit Committee is formed of the Board members, including at least three non-executive Board members, one of whom shall be the Chairperson of the Committee. At least two members of the Audit Committee shall be qualified and experts in financial business. The Committee shall meet at least once every three months, whenever required or upon request by the Committee Chairperson or the other two members.

The Audit Committee is responsible for exercising and reviewing the following:

- KFH's internal and external audit scope, results and adequacy
- Accounting issues of a material impact on KFH's financial statements
- KFH's internal control systems, ensuring that the resources available are sufficient for the monitoring functions
- Reviewing KFH's financials before presenting them to the Board to ensure that necessary provisions are sufficient
- Ensuring that KFH complies with the relevant policies, rules and regulations and instructions

The Audit Committee is authorized to obtain any information from the senior executive management as well as the right to invite, through official channels, any senior or Board member to attend its meetings.

On an annual basis, the Audit Committee shall assess the performance of the Head of Internal Audit, determine his remuneration and meet with the external and internal auditors at least once per year without the presence of the executive management.

The responsibility of the Audit Committee does not release the Board and the executive management from their responsibilities for the control of internal audit systems at KFH.

Pillar 5: Remuneration Policies and Systems

The Board actively oversees KFH's remuneration system's design, and monitors and reviews the remuneration system to ensure that it is functioning as intended. The Nominations and Remuneration Committee provides guidance to the Board in respect of all remuneration related matters.

KFH's Salary Administration Policy within its HR Policies serves as the remuneration policy and incorporates all the requirements of the CBK as mentioned within its corporate governance instructions. The policy includes all aspects and components of financial remuneration taking into account reinforcing effective risk management in KFH. The policy is designed to attract and retain highly qualified, skilled, and experienced professionals.

KFH's remuneration system comprises the following major compensation components:

- Fixed Remuneration; and
- Variable Remuneration, which comprises:
  - Short Term Incentives; and
  - Long Term Incentives.

The guiding principles in managing remuneration for senior management are that:

- All elements should be set at an appropriate level having regard to market practice for roles of similar scope and skill;
- The remuneration should be used to encourage and reward continuous high performance;
- The remuneration should be linked to key business goals as defined by the Board and should be linked with the performance of KFH and the time extent of risks; and
- Any reward should be used to align the interests of senior management with shareholders.

KFH maintains a formal performance management process for evaluating and measuring staff performance at all levels objectively. The variable remuneration is linked with performance. KFH's philosophy for senior management remuneration is to reward high levels of sustained performance.

KFH shall disclose, in its Annual Report, the most significant aspects of its remuneration policies and systems.

Remuneration Responsibilities of the Nomination & Remuneration Committee

A remuneration committee shall be formed of the Board members and comprises at least three non-executive board members including the Committee Chairperson. The key remuneration functions of the NRC include but are not limited to:

- Drafting the remuneration policy, submitting the same for the Board's approval and supervising its implementation.
- Conducting periodic revision of remuneration policy or when the Board so recommends and making recommendations to amend/update such policy.
- Carrying out periodic evaluation of the sufficiency and effectiveness of remuneration policy to ensure alignment with its announced objectives.
- Presenting recommendations to the Board regarding the level and components of the remuneration of the CEO and his direct reports as well as KFH's executive staff including the salaries, incentives, bonuses, share option system, retirement arrangements and end of services arrangements as well as the performance of any other duties related to the regulatory requirements.
- Upon evaluating the incentives proposed by the remuneration system, the Committee shall work closely with KFH's Risk & Assets Committee and/or the CRO.

Pillar 6: Disclosure and Transparency

Disclosure Policy

KFH realizes that the disclosure system is an effective tool for influencing KFH's behaviour and protecting investors, as well as enhancing their confidence in KFH. KFH shall provide its shareholders and investors with accurate, comprehensive, detailed, sufficient, and timely information essential to enable them to evaluate KFH's performance, and make effective decisions.

KFH is committed to:

- ensuring that stakeholders have the opportunity to access externally available information issued by KFH
- providing full and timely information to the market about KFH's activities
- observing CBK rules and regulations as well as the instructions of the Capital Markets Authority

Information and data included in KFH's annual or quarter reports, or presented in lectures given by the senior management shall be posted on KFH's website, in both Arabic and English languages.

KFH is committed in compliance with Capital Markets Authority instructions to timely and accurate disclosure of all material issued as per the approved policies, including but not limited to:

- Financial and operational results
- Objectives of KFH
- Ownership major shares
- Details of Directors, key executives and their remuneration
- Material foreseeable risks
- Material issues regarding employees, stakeholders, etc.

KFH has a Disclosure Committee in place comprising of the CEO, CRO, CFO, General Manager Strategy & Corporate Affairs, Executive Manager of Compliance and DGM - Legal. The Board has approved the Disclosure Policy including the policies and procedures to be followed by KFH for the release of sensitive information to the market, shareholders and stakeholders and to ensure that there are proper controls in place for timely and accurate disclosure of essential information related to KFH in line with local regulations, IFRS, Basel requirements as well as the corporate governance instructions of the CBK.

KFH maintains a disclosure record for the Board members and the executive management including the data required by the regulatory authorities. Such record is regularly updated.

The Board is ultimately responsible for ensuring the integrity, accuracy and impartiality of the disclosed information and having the necessary controls and mechanisms in place for the proper implementation of the disclosure policies and procedures. The Board monitors compliance with the Disclosure Policy and takes remedial action where necessary.

KFH will not disclose any information which is confidential and proprietary in nature. Disclosure pertaining to customers, products or systems which could have a material impact on KFH's investment in those products or systems and render those products or systems less valuable, and would undermine KFH's competitive position will not be disclosed. KFH shall not disclose any information or data, which might have an adverse impact on its condition or financial position, to certain categories like financial analysts, financial institutions or etc., before disclosing the same to the public.

Pillar 7: Banks with Complex Corporate Structures

Know Your Structure

The Board and senior executive management of KFH shall be fully aware of the structure of KFH's operations and the relevant risks at all times. They are fully aware of the structure of the KFH Group, in terms of the objectives of each unit or entity, as well as formal and informal relationships among the units and the Parent Company.

Proper and effective measures and bylaws are in place for obtaining and exchanging information among the Group's entities, so as to manage the risks of the Group as a whole and control the same effectively. KFH's Board of Directors and senior management ensure that the products and their relevant risks are assessed by each entity within the Group, and on the level of the entire Group's entities as a whole.

Incorporation of New Structures

KFH's approved Investment Sector policies related to the incorporation of new structures while ensuring that:

- Unnecessary complex structures are avoided
- Central procedures are in place for approving and monitoring the incorporation of new corporate entities under specific criteria including ability to supervise and fulfill the requirements necessary for the continuity of each unit
- Information on KFH's structure, including type, charter, ownership structure, and activity of each corporate entity is readily available, and
- Risks associated with complex structures, including incomplete transparency of operational risks arising from correlated and complex financing structures, are observed.

Pillar 8: Protection of Shareholders' Rights

The Board ensures that it protects the rights of its shareholders including minority shareholders as well as KFH's various stakeholders. The Kuwait Companies Law No. 32 of 1968 and amendments thereto and the corporate governance instructions of the Central Bank of Kuwait (CBK) as well as KFH's Articles of Association and internal policies and other relevant laws, include the controls and basis for protecting shareholders' and stakeholders' rights.

KFH is committed to preparing a statement of the financial and non-financial penalties imposed during the financial year, which should be read during the annual General Assembly meeting.

Rights of Shareholders

- Right to review and participate in the decisions related to amending KFH's Articles of Association, as well as the decisions related to non-ordinary transactions which might affect KFH's future or activity, such as mergers, sale of a substantial portion of its assets, or assignment of subsidiaries
- Right of participation in KFH General Assembly meetings, commenting and making recommendations (if any) on any improvements required
- Right of participating in the decision-making in relation to any significant changes being made in KFH
- Right of expressing an opinion on the appointment of members of the Board of Directors
- Right to have accurate, comprehensive, detailed, sufficient, and timely essential information in order to evaluate the investments and make informed decisions
- Right for receiving dividends and participating in and voting at the General Assembly meetings
- Right for minority / foreign shareholders to be treated on equal footing and be given the opportunity to rectify any violations or mistreatment in relation to their rights, all of which are in addition to the rights of shareholders secured by the relevant laws and regulations.

Responsibilities of Shareholders

- Shareholders are to ensure that the control of the Directors is effective
- Shareholders should ensure they are informed on KFH, take an interest in the composition of, and performance by the Board and its Committees, and should not plunge in the affairs of KFH.
- Shareholders should not seek access to sensitive information about KFH not generally available.

Pillar 9: Protection of Stakeholders' Rights

Stakeholders (other than shareholders) are relevant to the success of an entity. The Board understands that KFH's ultimate success is an outcome of the joint efforts of a multitude of parties including depositors, borrowers, staff memebers, investors and other parties having business relationships with KFH. KFH's various procedures, policies and practices accentuate the importance of respecting stakeholder rights as per relevant laws, bylaws and regulations.

The Board supports, as part of its Corporate Governance system, that:

- The interests of all stakeholders' legal rights are respected
- Performance enhancing mechanisms should exist for stakeholders to partake in the Corporate Governance process, and in a consultative manner to ensure an effective and responsible approach to managing KFH.

Rights of Stakeholders

- Right to be treated on a just and equitable basis
- Rights to open and clear disclosures of the relevant information

Compliance Assessment

The Board Governance Committee is responsible for maintaining this manual and monitoring its compliance by the relevant parties within KFH to its contents. The manual has been posted on KFH's website and is subject to an annual review.

All business processes and practices being performed within any department or business unit at KFH that are not consistent with any portion of this manual shall be revoked unless upgraded to the compliant extent.

KFH Corporate Governance Unit has established a system to determine and measure compliance with this Manual. Any violation is reported to the Board Governance Committee that escalates the same to the Board.

There have been no violations of any requirements within the manual by KFH since the implementation of the manual in July 2013.

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