بيت التمويل الكويتي
Kuwait Finance House

36th Annual Report

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

2014

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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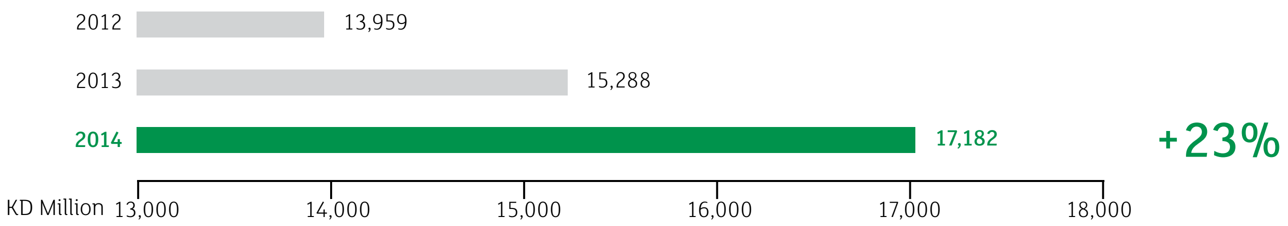
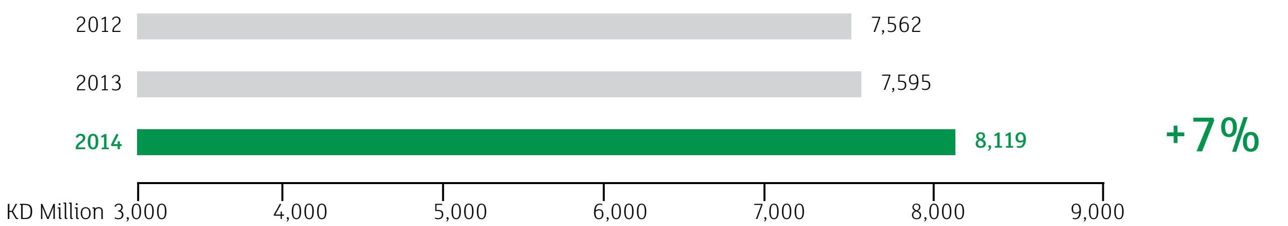
KFH Financial Performance Highlights

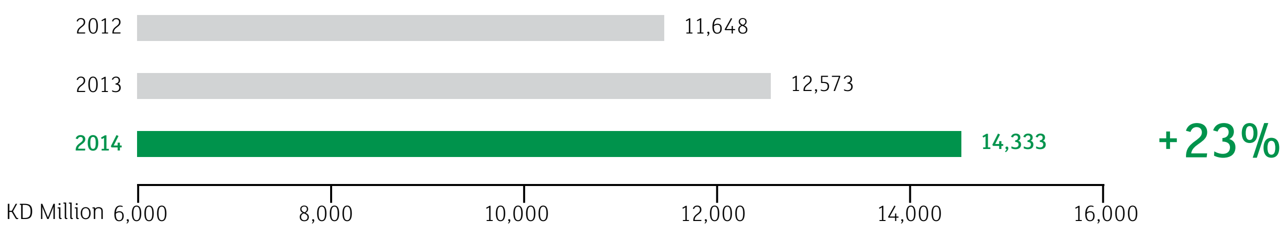
Total Assets (2012 - 2014)



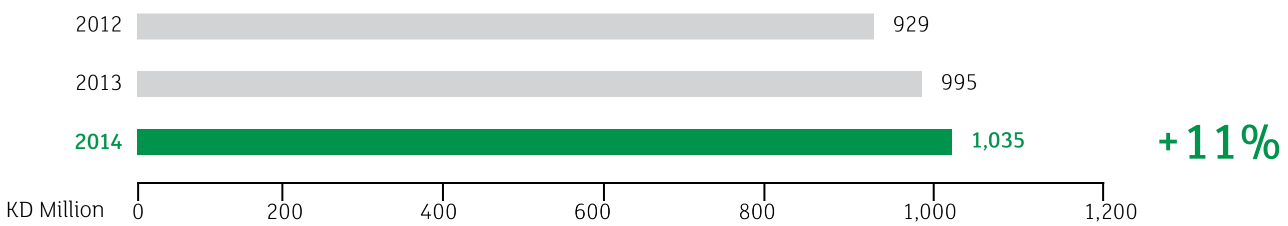
Total Financing Receivables (2012 - 2014)



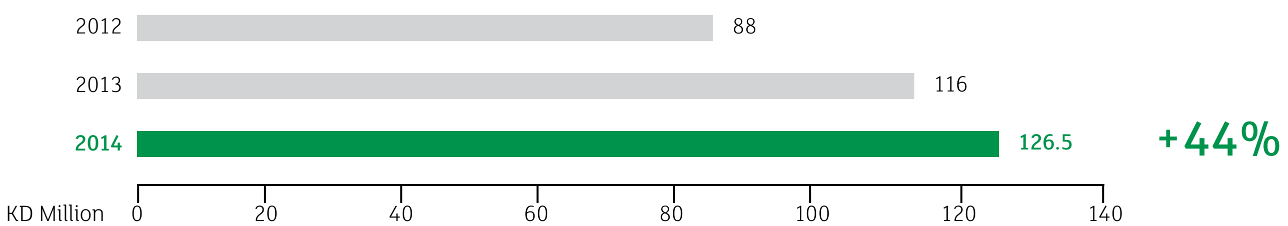
Total Deposits (2012 - 2014)



Total Revenues (2012 - 2014)



Net Profit attributable to the Shareholders (2012 - 2014)



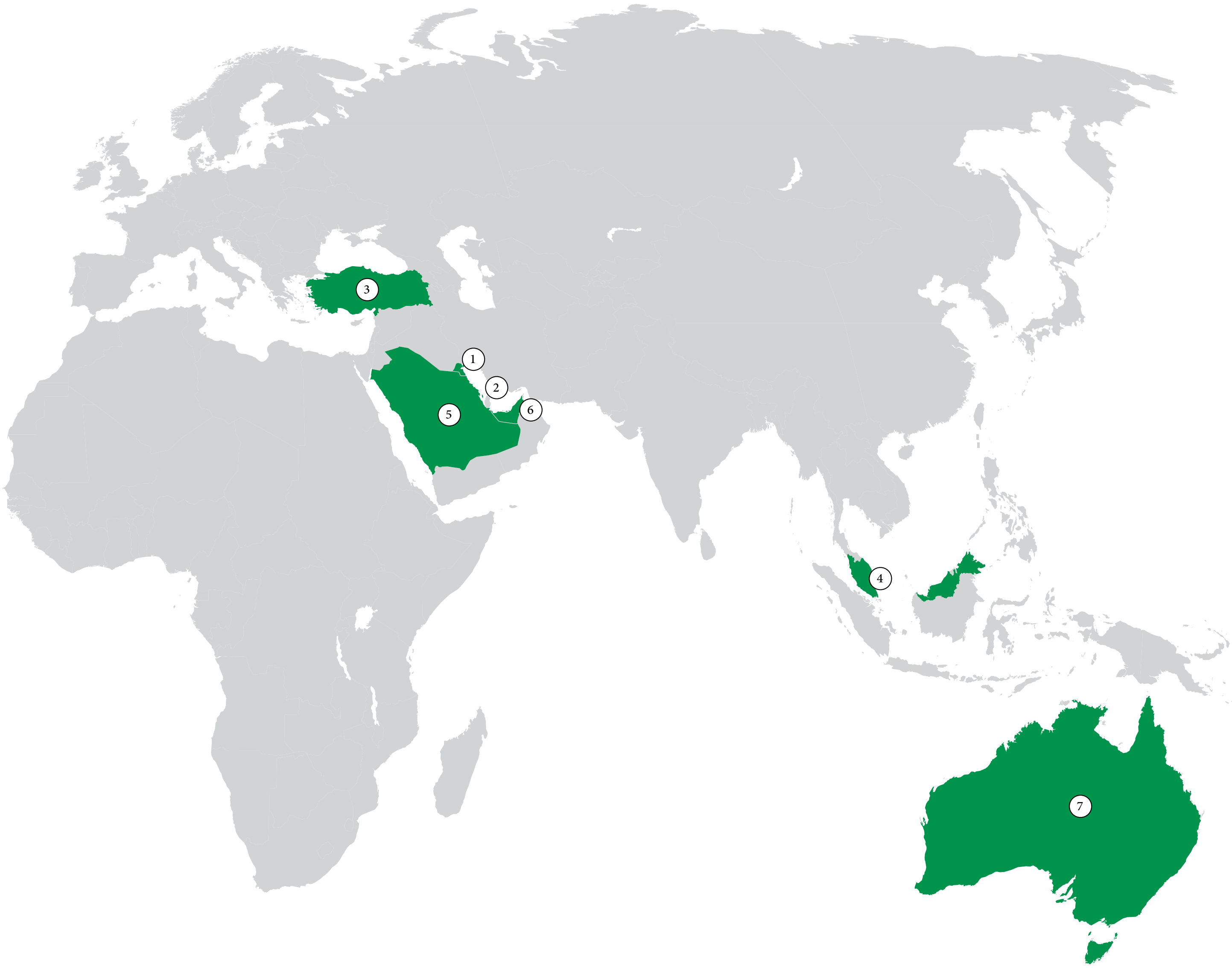
KFH

Group Overview

KFH Group Overview

Global Integrated Operations

Leading the Islamic finance industry, KFH Group's banking network spans across four regions worldwide, with 390 branches, over 740 ATMs and more than 9,000 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 financiers 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 Message

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 2014 KFH Group Annual Report.

The year 2014 marked a turning point for KFH. The year began with the election of a new experienced, qualified and well-rounded Board of Directors. Towards the end of the year a new CEO was appointed having solid banking knowledge and vast banking experience. This was followed by the revamping of senior management positions in order to build a team capable of facing the challenges in the market and to deliver future growth. The restructuring of these positions will also help us develop sustainable performance according to the best international credit and investment practices. This coincides with the restructuring of investment portfolios in order to align them with our business strategy and ultimately drive profitability.

Moreover this has been reflected in the acceleration of the Bank's progress through the enhancement of our abilities in all fields particularly in human resources, as we view our staff to be the key strategic asset. Increasingly we regard the expansion of our scope in local and international markets as well as the modernization, development and the launching of the new and innovative banking products, as the keys to our success. For that to materialize customer satisfaction has been and will be an even stronger thrust that we put in everything we do.

We will mark 2014 as an exceptional year and a turning point in the Bank's progression towards achieving its strategic vision as a leading financial institution in the local market as well in the region. This can be seen through the improvement in operating efficiencies, cost rationalization and creation of new banking tools and products. This will enable us to meet our clients' expectations and needs at the highest standards of quality and governance. Although most of the change initiatives took place in the second and third quarters of this year, the positive results of such initiatives started to emerge earlier with an overall excellent performance for 2014.

The Bank's net income level rose to a record level as we, with the help of Allah, achieved a net profit that reached KD 126.5 million by the end of the year 2014 with a profit per share of 29.68 fils. The total assets reached KD 17.2 billion, an increase of 12.4% and the client deposits increased by 14% reaching KD 14.3 billion compared to KD 12.6 billion last year. These figures reflect the strong financial position of the Bank in a difficult period that hit the local and global economy. During such period, the Group sought to keep its assets and the essence of KFH reaching the best financial results.

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

1. Payment of cash dividends of 15% and distribution of bonus shares of 10%.
2. Distribution of profits on investment deposits and saving accounts as shown in table (1).

Table (1) Depositor's profit rates

Account Type	2014	2013
"Al-Khumasiya" Investment Deposits	2.337%	2.180%
"Mustamera" Investment Deposits	2.064%	1.962%
"Al-Sedra" Investment Deposits	1.681%	1.526%
"Tawfeer" Investment Accounts	0.935%	1.308%
"Dimah" Investment Deposits (6 months)	1.446%	-

We continue to work in an environment of changing economic and regulatory conditions in addition to unprecedented regional and global political developments. We have taken upon ourselves at an early stage to develop our businesses to face the future with a strategic vision to become the world leader in the Islamic banking industry. In 2014, we enhanced this prestigious position exceeding our capital position as approved by the Central Bank of Kuwait. This falls within the framework of Basel III, which sets the capital requirements and will be implemented over phases that would end by 2018. The Bank's capital adequacy ratio reached 16.25%; a high ratio according to regional and international standards. We also sought to develop and improve credit risk management, settle the debts of insolvent companies and adopt measures to face any potential failure of repayment.

The continuous deployment of KFH's expertise coupled with the accelerated coordination between the different departments allowed us to benefit from all available opportunities in 2014. We were able to expand our branch network, enhance our infrastructure, launch new products and develop electronic service channels to increase the level of satisfaction of our clients inside and outside Kuwait. With the grace of Allah, we were able to achieve exceptional profits from the largest real estate event in Kuwait in 2014 through the auction of the KFH Real Estate Portfolio where 68 properties were sold with a total value of KD 125.58 million. The bank's share of profit from this was KD 36 million.

This year has been a pivotal year for the integration among the units of KFH Group, the restructuring of its investments and deepening the regional expansion. These enhancements will be adopted over the next few years through the implementation of policies aimed at our ambitious expansion plans and improving the Bank's market position in local, regional and world markets. Our banking subsidiary in Turkey, Kuveyt Turk Participation Bank, for example, has expanded its network of branches to reach 300 branches across the country. The bank in Turkey achieved very high results in addition to the improved profitability in KFH Bahrain and KFH Malaysia. Moreover, we participated in the issuance of the first sovereign Sukuk for the Government of the Republic of South Africa valued at USD 500 million and the issuance of USD 1.6 billion short-term Sukuk in collaboration with international banks and the International Islamic Liquidity Management Corporation (IILM).

The strengths of KFH were reflected in maintaining its credit rating of (A+) by Standard & Poor's and Fitch. In addition, Standard & Poor's improved the ratings outlook of KFH from negative to stable. In 2014, KFH received many prominent awards in the banking sector including the award of the Best Islamic Bank in the Middle East, the Best Islamic Bank in Kuwait and the Best Bank in Kuwait.

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	Stable

With full confidence we could say that our 2014 results strongly reflect our potential and what we can achieve in the future having a strategy aimed at meeting the needs of all our shareholders, customers and employees. We are waiting to reap the fruits of the major reforms which were taken at the organizational and operational levels and which constitute a key element that will aid our efforts to achieve our objective of maintaining the market leadership position.

In conclusion, on behalf of the Honorable Board members, I would like to express the highest gratitude and appreciation to His Highness the Amir of the State of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard, His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah, may Allah safeguard, the Central Bank as well as all the regulatory authorities for their support of the banking sector of the State of Kuwait.

The success we have achieved by the grace of Allah, clearly reflects the dedicated efforts of staff members and the confidence that our customers and shareholders have entrusted to us. Therefore, I would like to avail myself of this opportunity to express my thanks to them for their ongoing support. I would like also to extend my deepest gratitude to the Fatwa and Shari'a Supervision Board of KFH Group for their admirable efforts towards achieving the prestige and credibility our business deserves. We will seek to implement our plans in a disciplined manner in order for our organization to succeed in the long-term, and to provide sustainable returns to our shareholders and depositors.

May Allah Grant us Success,

Hamad Abdulmohsen Al-Marzouq
Chairman

Board of Directors

Mr. Hamad Abdul Mohsen Al Marzouq

Chairman

Chairman since March 2014

Chairman of the Executive Committee and Member of the Governance Committee

Mr. Al Marzouq holds a Master's Degree in International Finance and Business Management from Claremont University in the U.S. awarded in 1987 and a Bachelor's Degree in Industrial Systems Engineering from the University of Southern California in the U.S. awarded in 1985.

He has been a board member of Kuwaiti Banks Association (KBA) since 2002 and has been the association's Chairman since 2010. Mr. Al Marzouq has been a Board Member of Banking Studies Institute since 2003 and a Board Member of the Public Authority for Applied Education and Training (PAAET) since 2007. He held the position of Member of the Board of Trustees of the Arab Academy for Financial and Banking Sciences from 2004 to 2009 and was also a Member of the Union of Arab Banks from 2003 to 2010.

Mr. Al Marzouq has a wealth of banking experience both inside and outside Kuwait spanning more than twenty-seven years. He has held key leadership positions in different banking, financial and regulatory institutions. He was Chairman of Ahli United Bank – Kuwait (AUBK) from 2002 to 2014, and was Vice Chairman of AUBK in the U.K. from 1998 to 2014, in Egypt from 2006 to 2014, in Bahrain from 2000 to 2014, and in Oman from 2007 to 2014. He was also Vice Chairman of Iraqi Commercial Bank from 2006 until early 2014.

He was also a Board Member of Kuwait and Middle East Company based in Kuwait and the company's Vice Chairman and Chairman from 2002 to 2010. He held the position of Vice Chairman of Middle East Financial Investment Company in the Kingdom of Saudi Arabia from 2009 to 2013 and was a member of the Board of Directors of Ahli Bank in Qatar from 2004 to 2013.

Mr. Al Marzouq held key executive positions at the Central Bank of Kuwait where he acted as Assistant Director of the Technical Affairs Office in 1991, served as the Deputy Manager of Supervision Department from 1992 to 1996 and then served as Director of Supervision Department from 1996 to 1998. Mr. Al Marzouq started his career at the Kuwait Investment Company as an Investment Officer in the U.S. investment portfolio and derivatives department from 1987 until 1990.

Mr. Abdul Aziz Yaaqub Al Nafisi

Vice Chairman

Chairman of Nomination and Remuneration Committee, Member of Governance Committee

Vice Chairman since March 2014

Mr. Al Nafisi holds a Bachelor's Degree in Economics from Whittier College in the U.S. awarded in 1977.

He has held the position of Board Member of the Mobile Communication Company "Zain" since 2005.

He was the Chairman of Mada Communication Company from 2001 to 2011 and acted as Chairman of Al Madar Finance and Investment Company from 1998 to 2004. Mr. Al Nafisi was a Board Member of Withaq Takaful Insurance Company from 2000 to 2004 and was a Board Member of Kuwait Investment Projects Company from 1993 to 1996. He also held the position of Chairman of KFIC Financial Brokerage Company from 1989 to 1992.

He had previously held several executive positions including the General Director of Al Nafisi Real Estate Group from 1996 to 2010. He held the position of Deputy General Director of Yaqoub Al Nafisi Establishment General Trading and Contracting from 1984 to 1999, and Managing Director of KFIC Financial Brokerage Companyfrom 1989 to 1990. Mr. Al Nafisi started his professional career as the Head of Banking Facilities Department at Burgan Bank from 1978 to 1981.

Mr. Fahd Ali Al Ghanim

Board Member since March 2014

Member of the Executive Committee and Member of Audit and Compliance Committee

Mr. Al Ghanim holds a Bachelor's Degree in Civil Engineering from Kuwait University awarded in 2002.

He is currently Chairman of Aayan Ijara and Investment Company, a position which he has held since 2011. He has also been the Vice Chairman of Al Ahlia Heavy Vehicles Selling and Import Company since 2011. He was the Chairman of the Restructuring Committee at Aayan Ijara and Investment Company from 2010 to 2011 and Kuwait Industrial Company for Construction since 2004. Mr. Al Ghanim has been a Board Member and Trustee of Kuwait Sports Club since 2007, and has been the CEO of Al Ghanim and Sons Group of Companies for Cars since 2005.

Mr. Al Ghanim held the position of the Chairman and CEO of Al Ahlia Heavy Vehicles Selling and Import Company from 2005 to 2011.

He acted as Board Member in several local companies including the International Company for Electronic Payment from 2005 to 2010, the First Slaughterhouse Company from 2003 to 2005, and was the CEO of Al Ghanim and Sons Group of Companies Construction Division from 2002 to 2005.

Mr. Moad Saud Al Osaimi

Board Member since March 2014

Member of the Executive Committee and Member of Risk Committee

Mr. Alosaimi holds a Bachelor's Degree in Finance from George Mason University in the U.S. awarded in 2001.

He served as a Board Member of several companies including Kuwait Gate Holding Company from 2004 to 2014, Kuwaiti Financial Center Company (Markaz) from 2008 to 2011 and Al Raya Holding Company from 2005 to 2009.

Mr. Alosaimi has been the Deputy General Manager of True Value Company since 2003. He previously worked at the Investment Department of Aayan leasing and Investment Company in 2002 and completed an 18 month specialized training program at the Kuwaiti Investment Authority (KIA) in 2001.

Mr. Khaled Salem Al Nisf

Board Member since March 2014

Member of the Executive Committee and Member of Risk Committee

Mr. Al Nisf holds a Bachelor's Degree in Finance from the Faculty of Commerce, Economy and Political Sciences, at Kuwait University awarded in 1995. He also pursued specialized courses in financial statements analysis at the Institute of International Research.

He has been a Board Member of the Digital Computer Company since 2001.

Mr. Al Nisf held the position of Chairman of the Executive Board specialized in setting strategies and implementation at Al Nisf Group of Companies. He has held the position of CEO at Mohamed Bin Yusuf Al Nisf Company, Al Tadamon Company, Trading & Industrial Equipment Company (TIECO) since 2008.

He previously held the position of Investment and Finance Manager at Al Nisf Companies from 1997 to 2008, and was the Managing Director of the Company from 1995 to 2007.

Mr. Noor Al Rahman Abid

Board Member since March 2014

Chairman of Audit and Compliance Committee and Member of Nomination and Remuneration Committee

Mr. Noor became a member of the Institute of Chartered Accountants in England and Wales in 1976, and a fellow Chartered Accountant in 1986.

He was appointed as Assurance Leader in Ernst & Young Middle East and North Africa in 1999.

Mr. Noor received the World Islamic Banking Conference 2012 Industry Leadership Award in recognition for his contribution to the Islamic banking industry.

He previously served as Chairman of the Accounting Standards Committee, and Vice Chairman of Accounting and Auditing Standards Board of AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions). He is currently a member of the Board of Trustees of the organization. In addition, Mr. Abid also serves as a member of the Board and the Audit Committee of Meezan Bank, the largest Islamic Bank in Pakistan.

Mr. Noor joined Ernst & Young in Jeddah in 1979 and moved to Kuwait in 1986. He became partner in the office in charge of the Bahrain practice in 1993. Mr. Noor started his career in 1976 in the U.K., with KPMG.

Mr. Khaled Abdulaziz Al-Hasson

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

Member of the Executive Committee, Member of Nomination and Remuneration Committee

Mr. Al-Hasson holds a Bachelor of Business Administration (BBA) Degree in marketing, from Kuwait University awarded in 1985.

He has been a Board Member of the Arab Investment Company, Kingdom of Saudi Arabia, since 2012 and he has headed the Real Estate Department at the 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 and Representative of Kuwait Investment Authority (KIA) since 2007

Chairman of Risk Committee, Member of the Audit and Compliance Committee

Mr. Al-Omar holds a Bachelor of Commerce Degree in Accounting, from Kuwait University awarded in 1972.

He has been the Chairman of the Board of the Kuwaiti Investment Company, Kuwait, since July 2013, and for 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 at the Kuwait Investment Authority (KIA) since July 1999.

Mr. Al-Omar served as a board member of various companies inside and outside Kuwait, including "Societe Nationale Industrielle et Miniere" (SNIM) Mauritania as representative of the Arab Company for Mining, 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 the Kuwait Investment Authority (KIA) from 2001 to 2007, and Board Member of the Arab Mining Company in Jordan as a representative of the 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, in1986 and 1988 respectively.

Mr. Ali Mohammed Al-Olaimi

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

Member of Nomination and Remuneration Committee, Member of the Executive Committee

Mr. Al-Olaimi holds a Bachelor's Degree in Accounting from Kuwait University awarded in 1980.

He is the Director General of PAMA (Public Authority for Minor's Affairs) since 2002. He was a Board Member of Bahrain Islamic Bank. He was Deputy Director General of PAMA (Public Authority for Minor's Affairs) since 1992 till 2002.

Dr. Abdul Mohsen Abdullah Al Jarallah Al Kharafi

Board Member and Representative of Kuwait Awqaf Public Foundation, since March 2014

Head of Governance Committee and Member of the Risk Committee

Dr. Al Kharafi earned his PhD in Mathematics in 1986 from Loughborough University in the U.K.

Dr. Al Kharafi holds the position of the Secretary General of Kuwait Awqaf Public Foundation since 2011. He is the Chairman and member of many committees, projects and funds. Mr. Al Kharafi is also the Chairman of the Educational Subcommittee in the Supreme Consultation Committee for Completion of Implementation of the Provisions of Islamic Shari'a.

Furthermore Mr. Kharafi holds positions as Faculty Member, Department Head and Dean of Faculty of Basic Education college, a board member at the faculty of education at Kuwait University, a Board Member of Sharia and Islamic Studies Faculty at Kuwait University and a member of many leading committees at the Public Authority for Applied Education and Training (PAAET), a member at Kuwait Teachers Society and a board member at Kuwait Telecommunications Co. (VIVA).

Mr. Al-Kharafi has authored several scientific researches published in scientific studies and conferences. He has several books in the academic field and acts as the editor of several specialized encyclopedias. Also, he has authored around 15 books plus hundreds of articles to document the activities of many charitable persons in Kuwait.

Former positions held by Dr. Al Kharafi includes Head of Financial Committee of the Takaful Committees at Shamiya area during the Iraqi occupation of Kuwait, Head of Takaful Fund for Prisoners & Martyrs families Care and a board member at National Industries Charity Foundation. Dr. Al-Kharafi has founded Friends Charity Foundation in order to spread awareness and resist communalism in 2005. He won the State Award for Encouragement of Human & Social Sciences.

The Fatwa and Shari'a Supervisory Board Report

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 2014. 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 42 meetings during the year 2014, 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 2014 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.

Sheikh Dr. Sayyid Mohammad Abdul Razzaq Al-Tabtabae
Chairman

Sheikh Dr. Anwar Shuaib Al-Abdulsalam
Board member

Sheikh Dr. Mubarak Jaza Al-Harbi
Board Member

Sheikh Dr. Isam Abdul-Raheem Al-Ghareeb
Board Member

Sheikh Dr. Khaled Shuja' Al-Otaibi
Board Member

Fatwa & Shari'a Supervisory Board

Sheikh Dr. Sayyid Mohammad Al-Sayyid Abdul Razzaq Al-Tabtaba'e

Chairman of the Board

He is the former Dean of the Faculty of Shari'a and Islamic Studies at Kuwait University, and was a member of the teaching staff.

He is also Head of the Fatwa & Shari'a Supervisory Board at Kuwait Finance House in Malaysia, Member of the Shari'a Supervisory Board at Kuwait Zakat House, the International Association for Contemporary Matters of Zakat, Member of the Scientific Advisory Council at Kuwait University, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

He received his PhD in Islamic Jurisprudence in 1996 from the Supreme Institute of Justice at Al-Imam Muhammad Ibn Saud Islamic University in Riyadh.

Sheikh Dr. Anwar Shuaib Abdulsalam

Member of the Board

He is the Chairman of the Fatwa and Shari'a Supervisory Board of Kuwait Finance House in Turkey, and is the former Head of the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies at Kuwait University. He is also a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

He obtained his PhD in Islamic Jurisprudence from Al-Azhar University in 1999.

Sheikh Dr. Mubarak Jaza Al-Harbi

Member of the Board

He is the Head of the Department of Comparative Islamic Jurisprudence and Shari'a Governance at the Faculty of Shari'a and Islamic Studies at Kuwait University, and a member of the Fatwa and Shari'a Supervisory Board for Kuwait Finance House in Bahrain. He is also a member of the Fatwa Board at the Ministry of Endowments of Kuwait, and a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions and organizations.

He obtained his PhD in 2002 from the Faculty of Darul-Ulum at Cairo University.

Sheikh Dr. Isam Abdul-Raheem Al-Ghareeb

Member of the Board

He is a lecturer at the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies, Kuwait University. He is also a member of the teaching staff at the Faculty of Shari'a and Law at Kuwait University, and the former Assistant Dean of Student Affairs at the Faculty of Shari'a and Islamic Studies at Kuwait University.

He received his PhD degree in 2000 from the University of Birmingham, United Kingdom.

Sheikh Dr.Khaled Shuja` Al-Otaibi

Member of the Board

He is a member of the teaching staff at the Department of Islamic Jurisprudence and Usul Al-Fiqh at the Faculty of Shari'a and Islamic Studies of Kuwait University. He is also a member of the Shari'a Supervisory Board at Kuwait Zakat House, a general advisor for the Kuwait Hajj Delegation and an imam and orator at the Ministry of Endowments and Islamic Affairs of the State of Kuwait. Sh. Al-Otaibi is also a member of Fatwa & Shari'a Supervisory Boards at various Islamic financial institutions in Kuwait.

He received his PhD in 2000 from the Faculty of Shari'a and Islamic Studies at the Islamic University of Madinah.

Economic Developments in 2014

First: Global Economic Developments

The drop in oil prices is reigniting worries about the future of the global economy. The price of Brent oil has already dropped by 43% from June to December 2014, falling to less than USD 60 per barrel at the end of December 2014. This successive drop took a dramatic turn in the last quarter of the year as the OPEC countries failed to reach an agreement on oil production cuts. This is in addition to the unexpected rise in the production of shale oil, which has had a noticeable impact on international energy markets. Shale oil is set to acquire greater importance as a source of primary energy.

On the consumption side, the share of shale oil is also expected to increase. Furthermore, the United States, as the second largest consumer of energy in the world after China, experienced dramatic changes in the production of natural gas. This has created uncertainty on the potential production of non-traditional energy sources as the full potential of the new sources are still unknown at the international level. Such potential is correlated with exploration outside U.S. particularly in the Mediterranean area, which is still in its early stages.

The estimates of the International Monetary Fund (IMF) indicate a drop by 10% in the global oil prices which will add 0.2% to the world's total production within one year. It is expected that some oil importing countries will benefit from the surplus achieved from the fuel price reduction particularly in the Euro Zone which suffers from weakness and Japan which is experiencing stagnation. This is in addition to the slowing performance in a number of key emerging markets. This urged the IMF to raise its expectations relatively by 0.1% for the world's GDP in 2014 to 2.9%.

Despite the advantages of falling oil prices on the economies of China, the Euro Zone, the U.S. and Japan, such a drop will lead to slowing growth in a number of oil producing countries in the coming year. This includes GCC countries, Russia, Nigeria and Venezuela, which were negatively affected by the OPEC decision of last November. This concern was cited as one of the reasons for the recent instability in world capital markets, particularly GCC markets.

The U.S. achieved the best performance among the developed economies as its GDP grew in the third quarter of 2014 to 3.9% after robust expansion in the second quarter, which reported a growth of 4.6%. The U.S. was able to create more than 200 thousand jobs in the last ten months creating more confidence and increased investment while reducing the unemployment rate. As a result, the IMF raised its outlook for the U.S. growth from 2.3% in 2014 to 3.3% in 2015.

The Euro Zone, on the other hand, is still suffering weak economic growth despite the efforts of the European Central Bank to prevent stagnation as the policies of monetary and structural reform failed to overcome the weakness and achieve economic stability. The Euro Zone grew by 0.2% in the period from July to September while the inflation rate reached 0.3% on a year to year basis in November 2014.

The European banking system is slowly recovering, and the European economies still suffer from the high level of debt, balance sheet deficits and high political risks within unstable political environments in Greece, Portugal, Spain and Ireland.

Japan returned to stagnation in the third quarter of 2014 where the economic performance was affected by the rise in sales tax followed by its reduction. This led to early election in mid-December. It is expected that the policies of structural reforms adopted by the Japanese Prime Minister will continue as it will also be able to benefit from falling oil prices. This led the IMF to raise the growth outlook of Japan in 2015 from 1% to 3%.

The GDP growth in China slowed slightly to report 7.3% in the third quarter of 2014 from 7.5% in the second quarter. This means that the average growth for the first three quarters of 2014 was 7.4%. The IMF expects that the Chinese economy will report a growth of 7.1% in 2015 amidst the ongoing efforts of the Chinese Government to manage the slowdown of growth.

The Indian economy seems to be stronger than last year. The IMF expects the Indian economy to grow by 6% in 2014 despite the need for difficult structural reforms to ensure the acceleration of economic growth. The other BRICS countries; Brazil, Russia and South Africa are also expected to grow.

Second: Economic Development in the Middle East and GCC

The IMF expects the MENA region to grow despite the pessimistic environment in some countries of the region. The IMF expects the growth of the region to be 3% in 2014 compared to 2.6% 2013, while it expects the region to grow by 3.6% in 2015.

The environment of relative stability in the oil exporting countries in the GCC region led to the acceleration of economic growth in these countries. The growth rate was improved to report 2.5% in 2014 and it is expected to grow by 3.9% in 2015. Meanwhile, the GDP in the Kingdom of Saudi Arabia grew in 2014 to reach 4.6%. However, the IMF reduced its outlook slightly to 4.5% in 2015. The U.A.E. growth slowed to 4.3% in 2014 while it is expected to accelerate to 4.5% in 2015. In Qatar, the GDP growth settled at 6.5% in 2014 and it is expected to reach 7.7% in 2015.

The IMF raised its growth outlook for the oil importing countries by 1% as the economies of these countries are expected to grow by 3.7% in 2015. The GDP in Egypt is expected to grow by 2.2% in 2014, and the Egyptian economy is expected to grow in 2015 by 3.5%.

However, oil exporting GCC countries will be more affected by the drop of prices amidst instability in Iraq, Syria and Libya which may affect oil supplies.

Third: Economic Developments in the State of Kuwait

Oil prices continued their decline with the barrel price reaching less than USD 60 in the last weeks of December for the first time in over five and a half years. This price drop raises worries about the global economy in general and in Kuwait in particular where approximately 94% of the country's total income is depended on oil revenues. The drop in the price of oil also affects the economic and financial environment in GCC countries whose markets have seen acute fluctuations in the last months of the year. Earlier in the year, financial markets displayed confidence due to the high expectations of economies in the region amid high oil prices, economic growth and record surpluses achieved on the balance sheets and the current accounts.

The current concerns in GCC countries including Kuwait at the beginning of the New Year are the result of possible budget deficits resulting from the instability of energy markets and their inability to control the prices amid an expansionary financial policy at the medium-term. There is a need to enhance efforts to control the general financial situation and undertake significant reforms to rationalize government expenditures within the balance sheet amid fluctuating oil prices.

The economic reforms are also targeting the rationalization of fuel subsidies, which have lasted fifteen years and financing the State budget deficit through local borrowing or the reserves of the future generations fund, which constitutes one quarter of the government revenues. Such revenues are managed by the Kuwait Investment Authority (KIA) which manages assets estimated at USD 854 billion.

Despite such challenges, the Kuwait economy still has the potential and opportunities for growth provided that it looks for clear and well studied strategies and visions which focus on facing the challenges with non-traditional tools. This requires a package of well studied economic, financial, monetary and legislative policies which create resources and growth areas which open the way for the private sector to innovate and develop within the economic development plan.

On the other hand, monetary policy has been able to keep the Dinar exchange rate tied on a basket of currencies in which the USD constitutes the largest player. The Kuwaiti dinar interest rate depends on the movement of the USD interest rate, which is expected to rise in mid-2015. The current discount rate in Kuwait is 2%, which has remained at this level since October 2012 where it stood at 2.5%.

At the supervisory development level, the Central Bank of Kuwait (CBK) continued its efforts in the supervision of the banking and financial sector, the development of the banks capabilities, including risk management, and enhancement of financial stability by the implementation of strict regulatory standards issued by Basel III. It also introduced material amendments to the capital adequacy of Basel II. Moreover, local banks have been surveyed to ensure their readiness for the implementation of the best governance practices. The CBK has set the conditions and regulations which mandate the compliance by all the foreign banks licensed to operate in the State of Kuwait by opening more than one branch and representation office.

The GDP of Kuwait grew according to the outlook of the International Monetary Fund, as it dropped by 0.4% in 2013 while it is expected to recover by 1.4% in 2014. The Kuwaiti economy is expected to grow 1.8% in 2015 according to the IMF.

According to CBK data, the annual growth of the consolidated budget of the Local Banking Sector has slowed down to 7.7% or about KD 3.98 billion. Total assets were reported at KD 55.5 billion in December 2014. Last year, the annual growth rate was more than 9% or about KD 4.3 billion in December 2013. Total assets reported were KD 51.5 billion. The Bank deposits formed about 67.8% of the budget with a value that reached KD 37.6 billion in December where the annual growth has slowed down to 3.3% as compared to an annual growth that reached 8.8% in December 2013. Likewise, the annual growth of the volume of credit facilities extended to the Kuwaiti economic sectors has slowed down to about 6.2% in December 2014 as its volume has reached KD 30.7 billion. This compares to an annual growth that reached 8.1%, recording about KD 28.9 billion in 2013.

Real Estate sales in 2014 reached a level that surpassed the level recorded in 2007, as real estate liquidity during 2014 reached more than KD 4.8 billion achieving a remarkable annual growth of 22% or about KD 876 million. This compares to KD 3.9 billion that was recorded in 2013, which witnessed a remarkable annual growth rate of 19%, or about KD 629 million.

Kuwait Stock Exchange came off in another direction, as the Kuwait market index closed at 6,356 points in 2014 with a fall back of 1,193 points, a drop of 15.8% on an annual basis. The weighted index of the market has reached 439 points, with a slight decrease of 3%, after the value of shares traded declined during the year to KD 6.2 billion, a drop of KD 5.2 billion or 46%, compared with a total trading volume of about KD 11.4 billion in 2013. The market value of companies listed in the market reached about KD 30.2 billion through 244 days of trading, a drop of about one billion Kuwaiti Dinars, or a drop of 3% compared to a total market value of KD 31.3 billion in 2013 through 247 days of trading.

Chief Executive Officer’s Statement & Management Discussion

By the grace of Allah, we were able to show solid performance backed by the active participation of our employees. During the year, KFH achieved a number of important milestones and goals. This has enabled us to continue leading the march in building better and more innovative services supported by more efficient business operations.

In order to set up the business priorities for the next stage, the executive management of KFH identified eight themes that would form the foundation for the core changes to implement in the coming year, Allah willing. These themes include total focus on customer satisfaction at the forefront of our principles and values, which are derived from Islamic Shari’a. They also include the growth and development of staff and launching initiatives to retain and attract new talent. Alongside the structural improvements that are ongoing, we aspire to achieve harmony and positive synergies between the institutions of KFH Group while gradually disposing of non-bank investments; an action that would result in improving the effectiveness of investments and rationalization of capital. This in turn would maximize the returns for our depositors and shareholders.

We are building a new culture of productivity, accountability and efficiency while preparing the bank for future growth. A renewed attention to internal communication and a stronger unified corporate image will also be at the heart of our actions. This has so far required the internal restructuring of investments and the establishment of new groups and departments, along with restructuring of other departments and sections.

In Kuwait, the retail and corporate banking services have witnessed significant progress in a number of domains, which led to positive growth in income, assets and market share of bank deposits. Throughout the year considerable efforts were focused on the development of new products, improving coordination between business units and avoiding redundancies. The result of this has been the creation of a consistent performance management system, improvement in the growth of financing, acceleration in the restructuring of investments, improved services and enhancements to the range of products and services KFH has to offer. In addition, KFH has worked on improving the overall use of capital across the Group.

Regional & Global Expansion

KFH has a geographically diverse presence through its banking subsidiaries in Bahrain, Malaysia and Turkey. In Turkey, our banking subsidiary Kuveyt Turk Participation Bank has achieved record net revenue, after it was able to issue a five-year USD 500 million Islamic financing Sukuk. The issue was six times oversubscribed with total demand exceeding USD 3 billion, which was mainly due to the overwhelming interest from international investors. The success of this issue coupled with the strengthening of its role in the Turkish corporate finance market will enable the bank to attain its position as one of the most profitable Islamic banks for the third consecutive year. The bank has continued to expand in Turkey and now has a branch network spanning more than 300 branches across the country.

In Asia, KFH Malaysia was able to return to growth and profitability. In Saudi Arabia, the Saudi Kuwait Finance House established its first investment fund targeting growing investor interest in the country’s Initial Public Offerings “IPOs” market.

Retail Banking Services

In Kuwait, the growth rate of the bank deposits for the bank exceeds the overall Kuwaiti banking sector; a fact that helped us gain prominence as one of the leading banks in the market. Today, our branch network has reached 63 branches for men and 44 sections for women. As of 2014, KFH has a total 317 ATMs in Kuwait, and two new branches; Al-Zahra Center and Al-Jahra Branch at Alia Commercial Center along with a redesigned Avenues Mall branch.

Sales of the Gold Account have been expanded in 2014 and is now being sold in seven branches across Kuwait. In addition, we succeeded in providing new cash for the sixth issue of the new Kuwaiti currency across all ATMs and branches.

By integrating all operational support activities in one new group under the name of “Operations”, we were able to free resources and focus on customer acquisition and retention. The simplification of procedures and re-engineering of operations have also contributed to the reduction of costs in parallel with improvements in efficiency.

KFH also launched Al-Dimah Investment Deposit, which is based on the Shari’a principle of Mudarabah in its underlying investments. Deposits in this account are available in a range of investment periods; monthly, quarterly and annual basis. KFH continues to develop new Islamic products and services that include daily banking transactions, Islamic financing services and long-term investment solutions.

In order to meet the diverse savings and investment needs of our customers, we have put forward several long-term investment products. These products include the Rafaa plan for saving for marriage, the Thimar plan for retirement savings and the Injaz plan for building wealth to invest in a new business or private project.

In the domain of Bank Cards, Visa International and MasterCard companies have honored KFH for selling more than a million cards. Thus, KFH is considered to be the largest source of Visa cards in Kuwait, and a pioneer in terms of the volume of MasterCard transactions on K-net devices.

KFH also launched a premium credit card, the first of its kind in Kuwait, called the Visa Infinite Debit Card offering exceptional advantages giving priority clients exclusive services and features. The personal assistant service Yemnak, has been renovated for the clients in the special financial services area, with a variety of offers and services that befit their grade.

As for improvements personal finance and trading services, several solutions and products have been launched. These new solutions have decreased the overall financing processes and time for customers. During the year, KFH was able to inject more than KD 700 million as sales in the various sectors of economy, which contributed to stimulating the economy, especially in the area of new and used cars as well as the associated services. One of the services that was launched was the Al-Muthamin Al-Jawal, a mobile automobile valuation application, at automotive and vehicle inspection sites.

With the increasing interest in electronic banking channels online, KFH has completed an important part of the development of the bank’s online services. On the social media and communication channels side, KFH has become the most followed among local banks.

Executive Managment

Special attention has also been given to the online services by launching a new version of the application KFH-Online on smart phones. In addition, the Call Center has received widespread attention after the introduction of a Women's communication center.

Retail Banking Services has stepped up its efficiency through minimizing the time of completion for transactions. It has succeeded in reducing the number of documents for commercial sales transactions, and in strengthening the relations with other departments, and conducting follow-up with customers to improve performance.

Corporate and Real Estate Finance

Corporate Finance in KFH occupies a prominent and advanced position in the Kuwaiti banking market, being one of the largest commercial financial solutions providers. In this sector our efforts have been focused on expanding our customer base by strengthening existing client relations, raising the level of customer service and focusing in particular on the top corporate customers. The emphasis is also on cross-selling products and providing multiple packages of services to this important segment.

In 2014, KFH held one of the largest real estate auctions in Kuwait. The auction was for the sale of one of the bank's real estate portfolios which consisted of seventy income-generating real estate properties. The demand for real estate financing in Kuwait has come from all sectors of the real estate market including; residential, commercial and investment.

In terms of improving the quality of service, particularly financing and real estate services, the Service Quality team continued to put its efforts on spreading the culture of "Service Excellence" among customer service staff. It also worked on overcoming the work challenges with efficiency through the establishment of several programs for monitoring, follow-up and performance measurement. Service Quality also designed a 'mystery shopper' program for the evaluation of the work environment with the objective of improving the bank's image among "Tamayoz" and private banking customers. The Service Quality team was also responsible for the preparation of periodic detailed reports showing the level of service quality performance, which in turn leads to improvement actions.

Restructuring the Investments

During the course of the year, we have taken on the responsibility of restructuring our investment portfolio. Special consideration was given to this initiative by focusing on building a group of dedicated investment subsidiaries. The purpose of this was to make KFH more flexible and able to respond to the changes and developments in the market. This will also contribute more effectively to bottom line profitability as well as focus the bank on its core business activities.

Treasury Department

The Treasury Department has played an important role in KFH strategy towards international expansion. This can be seen through increasing the department's transactions with financial institutions spread all over the world. KFH, in partnership with several international banks such as International Islamic Liquidity Management Corporation (IILM), participated in total offerings of USD 1.65 billion in Sukuk issued by the IILM. KFH also participated this year through "KFH Investment Co." in the landmark Sukuk offering for the Government of the Republic of South Africa as well as a Sukuk for the Emirate of Sharjah. The bank continues to maintain an active presence in both primary and secondary markets for Sukuk around the world. This has enabled it to be a key player in the global Sukuk market.

The Treasury Department is also working in collaboration with KFH Capital to establish a fund for trading in Sukuk that allows customers to distribute their risks through the fund's diversification. The department also cooperates with KFH Capital to provide a Statement of Account on the trading of Sukuk, which opens the way for customers to make investments through the purchase, sale and management of the Sukuk portfolios and providing advice and information for customers who are trading in the market.

As for financial products pertaining to the treasury, the Gold Account continued its growth in the market. This success, in part, has come from the Bank's rollout of the product in multiple branches.

Information Technology Governance

The Information Technology (IT) Department took a number of initiatives as it has recently adopted the application of information technology governance to ensure the operation of the banking system consistently and efficiently. It also allows for monitoring and reviewing the operations and procedures as a basis for measuring performance. It also allows for the updating of service quality and the degree of its compliance with the latest international standards and practices. The objective is to ensure the implementation of strategies and policies effectively and efficiently.

The IT department also focused during the year on strengthening the infrastructure and standardization of data and information centers. This will ensure the bank's data is protected from security threats and potential hacking.

Risk Management and Corporate Governance

KFH affirms the importance of Risk Management as being one of the main components of a prudent banking business. An independent body has been developed, reporting directly to the Risk Committee, which reports to the Board of Directors and assumes the responsibility of supervising the management of credit risks, market risks and operational risks, along with the regulatory obligations. This is managed at both the local level in Kuwait as well as on the Group level.

The Risk Management department submits regular reports to the Board of Directors and its committees on the quality of assets and the market value subject to risk as well as the liquidity risks. It is also required to provide reports to the regulators and to conduct the stress tests to ensure banking stability.

KFH has continued to adopt Corporate Governance Standards in accordance with legislative and local regulatory requirements. It also kept pace with the rapid developments at the international level in Corporate Governance principles and practices. As a culmination of the efforts exerted by Management, KFH has recently received the "Excellence in Governance Award" through its participation in the annual conference on corporate governance in the Gulf Cooperation Council States (GCC), granted to it by the organizing committee of the conference.

KFH has taken part in the efforts for developing the standards of Basel III that took effect at the end of 2014.

Community Service

KFH has a long track record in community service and has played a leading role in fulfilling its corporate social responsibilities. Throughout the year, by participating in a variety of activities KFH has served the community in social, scientific, health and environmental areas. In an initiative within the framework of its strategic partnership with Zakat House, KFH has continued to offer donations directed towards Zakat and charity activities inside the State of Kuwait, and offers support throughout the year to the members of its community.

During the year, public awareness initiatives and campaigns were conducted in the field of traffic awareness, energy conservation, diabetes care and environmental protection. KFH has sponsored and hosted a number of conferences and other important events and activities organized in Kuwait. These were aimed at the empowerment of Kuwaiti youth in the field of entrepreneurship.

Human Resources

In the framework of strengthening our position as one of the leaders in the recruitment of youth, 96% of new employees were Kuwaiti up to the end of October 2014. Notably the percentage of Kuwaiti employees at the bank has increased up to about 62%, out of our belief in the necessity to build national youth talent to lead the banking business in the coming period. This is in addition to the efforts aimed at achieving the optimal benefit of the workforce. During the year, KFH launched a study of the levels of financial advantages and the salaries applicable according to the latest standards applicable in the local market.

Within the framework of its efforts to support the youth, and providing job opportunities for them, KFH has co-sponsored several conferences and functional fairs in Kuwait and abroad. Two in particular are worth mentioning; first the participation in the 17th Exhibition of Career Opportunities that was held at the College of Engineering and Petroleum of Kuwait University and second, participation in the Exhibition of Career Opportunities at the Gulf University for Science and Technology (GUST).

Human Resources has paid special attention to raise the skills and expertise of the staff. As such, 12 training programs were implemented in different areas. The organized training programs and workshops set a record of 2,700 employees who completed approximately 20,000 in-person and e-learning programs.

Human Resources has also developed a process and mechanism for career advancement in line with global standards. This covers distinctive managers and employees on the list of high-performers. During the year, 4 employees were accepted in the scholarship program for attaining Master's degrees.

Finally, we thank Allah for the achievements of KFH during 2014 allowing the Bank to strengthen its leading position around the world. I am quite convinced and hopeful that KFH would enhance its growth and its position in the coming years, to become the premier Islamic bank in the world and at the forefront of developing new and innovative products and services.

Despite the challenges ahead of us, the future rests on what I regard as the best banking team in the country. Our mandate is clear; we are here to speed up growth and create value for our institution and its shareholders within the strict guidelines of Sharia'a. We also strive to take on the leadership position that the market expects from us through our distinctive competencies: quality, service excellence and commercial dynamism nationally and in every country where we operate backed by the efficiency of our supporting functions.

We aim to serve more customers, at an early lifestage, retain effectively current ones, cross-sell to them and grow both in volume and value.

Let me take this opportunity to express my appreciation to the Board of Directors and the Fatwa & Shari'a Supervisory Board for their continuous support, I also wish to congratulate my colleagues and all the Staff members of KFH Group, for their effective role in promoting the pioneering position of KFH. To all employees and associates I would like to asure you on my behalf and the Executive Management that you can count on us to work as a team and take the necessary decisions.

Mazin Saad Al-Nahedh

Group Chief Executive Officer (CEO)

Financial Performance in 2014

In 2014, KFH Group (the Group) reported net profit attributable to the shareholders of KD 126.5 million as compared to KD 115.9 million for 2013.

Financing income amounted to KD 645.8 million as compared to KD 571.4 million in 2013. Net finance income at KD 363.4 million reflects a 8% increase on 2013 (KD 336.4 million).

Finance cost and distribution to the depositors inched higher to KD 282.4 million compared to KD 235 million in 2013.

Investment income amounted to KD 189.7 million as compared to KD 257.3 million in 2013. The decline is due to exceptional gains on sale of real estate properties in 2013.

Provision and impairment losses of KD 178.2 million during 2014 compared to KD 231.5 million in 2013 the decrease is mainly due to reduction in provision charge against financing receivables and increase in recoveries of written off financing receivables made during the year.

2014 Consolidated Financial Position

Total assets of the Group grew to KD 17,181.9 million from KD 15,288.1 million at the end of 2013. Financing Receivable increased by KD 523.6 million to KD 8,118.9 million.

The Group maintained a strong liquidity position with cash and balances with banks and financial institutions and short term Murabaha amounting to KD 4,826.5 million at the year end which represents 28.1% of total assets of the Group.

Depositors' accounts increased by KD 777.4 million to reach KD 10,881.4 million at the year end. Due to banks and financial institutions increased by KD 982.8 million to KD 3,451.3 million amounting to an increase in total deposits by 14%.

Equity attributable to the shareholders of the bank

Total equity attributable to the shareholders of the bank amounted to KD 1,746 million as compared to KD 1,663 million at the end of 2013.

The Basel III regulations were issued by Central Bank of Kuwait during the current year. The capital adequacy ratio calculated in accordance with Basel III regulation was 16.25% at the year end after distribution of proposed dividends to share holders, which is in excess of the minimum 12% requirement by the Central Bank of Kuwait.

Proposed dividends

The Board of Directors of the Bank has proposed a cash dividend of 15% for the year ended 31 December 2014 (2013: 13%) and issuance of bonus shares of 10% (2013: 13%) of paid up share capital. This proposal is subject to the approval of the ordinary general assembly of the equity holders of the Bank and completion of legal formalities.

Directors' fees of KD 610 thousand (2013: KD 580 thousand) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the equityholders of the Bank.

Important Financial Info

(K.D. Million)

	31 Dec 2014	31 Dec 2013	31 Dec 2012
Total Assets	**17,182**	15,288	13,959
Financing Receivable	**8,119**	7,595	7,562
Total Deposits	**14,333**	12,573	11,648
Net Finance Income	**363.4**	336.4	343.3
Net Profit attributable to shareholders of the Bank	**126.5**	115.9	87.7
EPS – Fils	**29.68**	28.72	22.89

Executive Management

Mazin Saad Al-Nahedh

Group Chief Executive Officer (CEO)

Mr. Al-Nahedh received his Bachelor's degree in Finance from California State University Sacramento in the U.S. awarded in 1992.

He possesses vast banking experience, spanning more than 20 years. During his professional career, he assumed numerous leadership roles at the National Bank of Kuwait (NBK) including his role as a member of the Management Executive Committee from November 2010 to 2014. He also held the positions of Group General Manager, Retail Banking Group from 2011 to 2014 and Group General Manager, Corporate Banking Group from 2008 to 2011.

At NBK, Mr. Al-Nahedh also held the positions of Treasurer in 2008, Deputy General Manager of the Treasury Department in 2006, Deputy Assistant General Manager in 2007, and Executive Manager for the Treasury Department in 2001. In addition, he was promoted to various leadership positions within the Treasury Department of the bank from 1993 to 2001. Mr. Al-Nahedh began his work at the National Bank of Kuwait as a Banking Relationship manager in the Corporate Banking Department in 1993.

Shadi Ahmad Zahran

Group Chief Financial Officer

Mr. Zahran was awarded a Master in Business Administration (MBA) degree in Finance from the University of Manchester in the U.K. in 2014. He received his Bachelor's degree in Accounting from the University of Jordan in 1992.

He is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants (AICPA) in the U.S. since 1996, and Certified Bank Auditor (CBA) from the Bank Administration Institute (BAI) in the U.S. since 1999. He is also a Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain since 2006, and Jordanian Certified Public Accountant (JCPA) since 1996.

Mr. Zahran joined the Kuwait Finance House management team in July 2014 as Group Chief Financial Officer.

He ascended in leadership roles at Ahli United Bank Group, where he worked as General Manager of Finance in Kuwait from 2009 until 2014. He assumed the post of Head of Group Financial Controlling at Ahli United Bank in Bahrain from 2005 until 2009.

From 2000 to 2005 he was the Head of Management Accounting & Financial Systems Management at Al-Rajhi Bank in the Kingdom of Saudi Arabia.

He has also worked as External Auditor from 1992 to 2000 with international external audit firms, mainly Ernst & Young and Grant Thornton.

Dr. Paul Quigley

Group Chief Risk Officer

Dr. Quigley received his PhD in Finance in 1997 from the University of Birmingham in the U.K., and his Master's and Bachelor's degrees in Finance, Treasury and Investment from Dublin City University. He was also awarded a scholarship under the Fulbright Program at the University of Illinois in the U.S.

He joined the Management Team of Kuwait Finance House as an Advisor in 2011. Dr. Quigley was appointed as Chief Executive of the Institute of Bankers in Ireland.

From 1999 to 2011 he held various risk management positions, having worked as General Manager for Risk Measurement at Allied Irish Bank Group. He also was in charge of academic activities at the Faculty of Finance at Dublin City University. Dr. Quigley has also worked at the Ministry of Finance and at the Internal Revenue Department in Ireland.

David Raymond Power

Group Chief Banking and Private Banking Officer

David holds a bachelor's degree in Economic and Business Administration from the University of Cape Town in the Republic of South Africa. He has also attended a number of leadership programs in management from leading institutions around the world. He attended executive management and development programs at Ashridge Business School, Oxford University and Henly Business School, all of which are in the U.K. Mr. Power is also a Certified Member of the Institute of Bankers in South Africa where he holds an Associate Diploma in Banking.

David has held a number of leadership positions globally with his last appointment being the Group Head of Retail Banking at Commercial Bank International in the U.A.E. He held that position from 2011 to 2014. Prior to that he served as the Chief Retail Banking Officer and General Manager of Retail and Private Banking at the National Bank of Oman from 2009 to 2011. Before moving to Oman he held the post of Deputy General Manager for Retail Banking at Gulf Bank in Kuwait from 2007 untill 2009. He also worked as the Divisional Director of Nedbank Private Bank in South Africa, a post he held from 2002 to 2006. Before joining that bank he had a long and successful career at Standard Bank of South Africa Limited from 1985 to 2002 where he held a number of senior retail leadership positions the last two being the Head of Priority Banking and the Head of Standard Bank Offshore Group.

Ruben Omar Fernandez

Group Chief Treasury Officer

Mr. Fernandez holds a Master's in Economics from Buenos Aires University, and a Master's in Finance, UCEMA, both from Argentina. He has held the position of 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. Prior to this he was Vice President of Emerging Markets Sales & Trading and Vice President at Citibank, Argentina. Before joining KFH, Mr. Fernandez was Director at Societe Generale, New York.

Srood Sherif

Group Chief Information Technology Officer

Mr. Sherif received his Bachelor's degree in Science from Mustansiriyah University in Iraq. He assumed the position of Group Chief Information Officer at the Kuwait Finance House in 2014. He previously worked at the National Bank of Kuwait in 2013 as the Group Chief Information Officer where he was a member of numerous management committees.

Previously he worked as the Group Chief Information Officer at National Bank of Abu Dhabi in the U.A.E.

Mr. Sherif possesses specialized experience in the field of information technology at financial institutions, specifically in mapping the business objectives to the information technology strategies and application management. In addition, he also has experience in systems design, applications, and project management. Mr. Sherif also possesses a unique background in managing large Data Centers and managing major information technology projects.

Peter Verhoeven

Group General Manager of Wholesale Banking

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

He has held the position of 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.

Fahad Khaled Al-Mukhaizeem

Group General Manager of Strategy and Corporate Affairs

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 in the U.S. 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 has held the position of General Manager of Strategy and Corporate Affairs since 2012. He is the Chairman of the Board of ITS Company and 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.

Zeyad Abdullah Al-Omar

Group General Manager, Human Resources & General Services

Mr. Al-Omar received a Bachelor's degree in English Literature from Kuwait University awarded in 1986.

Mr. Al-Omar held various positions until he served as Executive Manager at Zain Group Telecommunications from 2011 to 2013, before that he worked as Chief Regulatory Officer, Also held the post of Chief Human Resources, at Wataniya Telecommunications from 2002 to 2011. earlier to that he worked as General Superintendent of Compensation and Benefits at Kuwait National Petroleum Company from 1986 until 2002.

Abdullah Mohammed Abdullah Abu Al-Hous

Group General Manager of Operations

Mr. Al-Hous received a Bachelor's degree in Business Administration (Finance) from Kuwait University awarded in 1987.

He also holds specialized executive programs, like General Manager Program (GMP) – Harvard Business School – USA (2008), Accelerated Development Program (ADP) – London Business School – London (2007), and Young Managers Program (YMP) – Insead – France (2006).

He worked as the Chief Operations Officer at Warba Bank from 2011 to 2012, and earlier worked at the National Bank of Kuwait from 1994 to 2011, where he held the position of Deputy General Manager of Operations. He also worked as Senior Supervisor of Operations at the Ahli United Bank Kuwait from 1992 to 1994. Mr. Al-Hous began his career as a Credit Analyst at Gulf Bank from 1987 to 1992.

Abdulwahab Essa Abdulwahab Al-Rushood

General Manager of Kuwait Treasury

Mr. Al-Rushood received a Bachelor's degree in Mathematics and Computer Science from the Western Oregon State College in the U.S. awarded in 1987. He also attended a specialized training course from Harvard University called Results for Strategic Leading Management.

He held the position of Deputy Director of the Board at the Liquidity Management House in Bahrain, as well as holding the position of Member of the Board at KFH Bahrain, and ALAFCO Aviation Lease and Finance Company.

He assumed the responsibility of General Manager of Kuwait Treasury at Kuwait Finance House in 2013, and served as the Treasury Department Manager in 2005. Mr. Al-Rushood began his career at Kuwait Finance House as a Senior Trader in 2002. Prior to this, he held various positions at Gulf Bank, including the position of Senior Trader, from 1988 to 2002.

Mr. Al-Rushood was a Member of the Board at Kuwait Finance House of Malaysia from 2007 to 2013, and at the Board of Directors of the Liquidity Management House from 2008 to 2013.

Waleed Khaled Mandani

General Manager of Private Banking

Mr. Mandani received his bachelor's Degree in Business Administration from the University of Arizona in 1992, while in 2011 he completed the Executive Project Management & Leadership Program from Cornel University in New York.

Mr. Mandani attended several professional events such as BNP Paribas offering & Asset Management Seminars in Geneva, London, Paris, Luxemburg. An "Investment Analysis & Portfolio Management" Euro Outlook for 2000, course held by Solmon Smith Barney Asset Management, the Risk Matrix organized by J.P. Morgan group, in addition to the "Derivative Fundamentals and Equity Valuation" by UBS – London. Furthermore, Mr. Mandani completed several specialized courses in the fields of Marketing, Finance and Treasury products at NBK.

Mr. Mandani served as CEO - Wealth Management at BNP Paribas and represented the bank at Kuwait Banking Association during the period from 2005 till 2014. He also worked as a Senior Manager for Private Banking & Institutions at Al-Ahli United Bank (Kuwait) starting from 2001 till 2005, and Head of Corporate & International Capital Markets at National Investments Co. from the year 1998 till 2001. He started his professional career as a Treasury Corporate Officer (Dealing Room) at National Bank of Kuwait during the period from 1993 till 1997.

Mansour Abdullah Abu-Obaid

Acting Group General Legal Counsel

Mr. Abu-Obaid received his Master's Degree in Law from the Faculty of Law, Tanta University, Egypt in 2004. He received his Bachelor's Degree in Law from Cairo University, Egypt in 1991.

Mr. Abu-Obaid served as Chairman of Aref Investment Group, Kuwait, and has been a Board Member of Baitak Real-Estate Company in the Kingdom of Saudi Arabia since 2011. He has also been the Vice Chairman of the Board of Trustees of the International Islamic Centre for Reconciliation and Arbitration (IICRA), Dubai since 2012.

From 2011 to 2014, Mr. Abu-Obaid held the position of Legal Consultant at KFH and served as the Deputy Manager of the Legal Department from 1997 to 2011. Mr. Abu-Obaid first joined the KFH legal team when appointed as a lawyer in 1991 until 1993.

Prior to being appointment as the Deputy Manager of the Legal Department at KFH, Mr. Abu-Obaid served as a Manager of the Legal Department at the Kuwait Awqaf Public Foundation from 1993 to 1997. He began his career as the Head of Judicial & Public Prosecution in the Administrative Affairs Division of the Ministry of Justice from 1988 to 1991.

Corporate
Governance Report

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 1/8/2011 under the name (Nomination, Reward and Governance Committee). In the 43rd Board meeting held on 11th February 2013, the Governance Committee was separated from the Nomination and Reward Committee to initiate its functions under the name (Governance Committee). As such, the Committee embarked upon its assigned operations in its first meeting dated 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 introduced a committee titled the Executive Committee to enhance the Board role in fulfilling its responsibilities in the implementation of the banking operations and investment activities of the Bank.

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:

Ownership Shares:

Name	Ownership Type	Country	Number of shares held	Ownership ratio
Kuwait Investment Authority (KIA)	Direct	Kuwait	1,043,078,702	24.1%
Public Authority for Minors' Affairs (PAMA)	Direct	Kuwait	454,160,769	10.5%
Kuwait Awqaf Public Foundation	Direct	Kuwait	316,054,630	7.3%
Public Institution For Social Security (PIFFS)	Indirect	Kuwait	259,911,054	6.0%

Board Members' Duties and Responsibilities

1 General Responsibilities of the Board of Directors

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

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. On the 24th March 2014, the nomination was opened for membership on the Board and the General Assembly elected its members. Accordingly, a new Board was formed in the 13th session. The Board office term is three years and a member may be elected for another 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.

2.1 Function of the Board 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 The Relationship between the Board of Directors 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 and the Remuneration Policy.

4 Organization of the Business of the Board

The Board of directors held 19 different meetings during 2014 including 14 meetings held by the Board in its current session since its election on the 24th of March 2014 with a 90% attendance percentage. The previous Board held 5 meetings from 1 January to 23 March 2014 with a 94% attendance percentage in its 12th session before the election of the new Board in its thirteenth session on 24 March 2014 with an average of 4 meetings per quarter in 2014. A meeting is called for whenever the need arises. The number of meetings held exceeded the regulatory requirements related to corporate governance, which must not be less than 6 meetings per year and not less than one meeting per quarter. The resolutions adopted in the meetings minutes are binding and are part of KFH records.

In its current form, the Board adopted a number of resolutions in 2014 which were recorded in 9 minutes of the Board resolutions.

The Board Chairman consults with executive management on important issues who suggests topics to be included in the Board meetings. The Board Chairman provides the Board members with the sufficient data and information prior to Board meetings in order to adopt the necessary resolutions. The Board secretary takes minutes of the Board discussions and the members' suggestions as well as the results of voting in meetings. The Board chairman and members' responsibilities are set in writing under the relevant legislations and regulations.

5 Board Meetings

Attendance schedule and names of Board Members during the 13th session as well as the number of meetings during 2014

Name	24 March	7 April	9 April	5 May	19 May	9 June	16 June	9 July	15 July	7 September	13 October	10 November	13 November	22 December	Attendance percentage
Mr. Hamad Abdulmohsen Al-Marzouq (Board Chairman)	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Dr. Abdulaziz Yaqoub Al-Nafisi (Vice chairman)	√	√	√	√	√	√	-	√	√	-	-	√	√	√	79%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Muad Saud Al-Osaimi	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Fahad Ali Al-Ghanim	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Dr. Abdulmohsen Abdullah Al Jarallah Al Kharafi	-	√	-	√	√	-	√	√	√	-	√	√	√	√	71%
Mr. Noor Al Rahman Abid	√	-	-	√	√	√	√	√	-	√	√	√	-	√	71%
Mr. Ahmad Abdullah Abdul Aziz Al Omar	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Khaled Abdulaziz Al Hasson	√	√	√	√	√	√	√	√	√	√	√	√	√	√	100%
Mr. Ali Mohammad Al Olaimi	√	√	√	-	√	√	√	√	√	√	√	√	-	√	86%

Dates of meetings in 2014

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

6 Board Committees

During its current thirteenth session, KFH Board formed five subcommittees to assist in carrying out the duties and responsibilities of KFH. The number of committees is considered appropriate to oversee the diversified activities of KFH and where all the members of the Board of Directors take part in these committees. These Board Committees include:

6.1 Audit and Compliance Committee

The Audit and Compliance Committee was formed to help the Board of directors in complying with its supervisory responsibilities across the bank's accounting processes, financial regulations, internal audit controls, compliance and risk management systems as well as the management of financial reports with internal and external auditors to ensure compliance with regulatory requirements.

The Audit Committee is comprised of three members including the committee chairman and vice chairman. At least two of the members must have knowledge in financial matters in order to perform their duties as members of the committee. Their membership in this Committee coincides with their Board membership.

In 2014, the Committee held 8 meetings including 4 meetings held by the Committee members in its current form in the thirteenth session with an attendance percentage of 100% while the Committee members held 4 meetings in the previous form in the twelfth session with an attendance percentage of 81%. In 2014, the Audit and Compliance Committee adopted in its current form a number of resolutions which were recorded in the minutes of the Audit and Compliance Committee resolutions. The Committee holds its meetings whenever required or upon the Committee chairman or the other two members' request.

The duties and responsibilities of the Audit Committee represent in the supervision of the financial controls and systems of KFH and the report preparation processes including:

- Providing recommendations concerning the appointment, dismissal and reward of the external auditors or any conditions related thereto or to their qualifications and assessing their objectivity of providing their professional opinion.

- Discussing the results of the interim and final audit with external audit and the resulting considerations along with any other issues the external auditors wish to discuss.
- Setting proper standards to ensure their implementation in the external audit processes.
- Review and discussion of the appointment and dismissal of the head of internal audit, head of compliance and head of money laundering and recommending to the Board in this regard.
- Assessing the performance of the internal audit, regulatory compliance and money laundering and issuing recommendations concerning the compensations of those in charge of such departments.
- Ensuring that the external auditors include a statement on the Bank compliance with the governance rules issued by the CBK in the annual report submitted to the Bank.
- Review of the accounting documents, reports and information on a regular basis as well as the revision of financial statements with the executive management and the external auditor before submission to the Board chairman.
- Review of the accounting issues with significant impact on the financial statements.
- Supervising the internal controls of KFH and ensuring the adequacy of human resources assigned to the control functions.
- Review of the assigned budgets and ensuring their adequacy as per the financial statements approved by the executive management.
- Any other activities in line with the articles of association applicable in KFH and the applicable laws as deemed by the Board.

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 responsibility of the Audit and Compliance Committee does not relieve the Board and the senior management from the supervision of the internal controls of KFH.

A schedule of the names of Board Members in Audit and Compliance Committee in its current form and the number of meetings held in 2014

Name	Dates of meetings in 2014				Attendance percentage
	4 May	9 Jul	12 Oct	9Nov	
Mr. Noor Al Rahman Abid (Committee Chairman)	√	√	√	√	100%
Mr. Fahad Ali Al Ghanim	√	√	√	√	100%
Mr. Ahmad Abdullah Al Omar	√	√	√	√	100%

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

6.2 Nomination and Remuneration Committee

The key role of the Nomination and Remuneration Committee is to assist the Board of Directors in meeting its obligations related to selecting qualified individuals for the membership of the Board and Executive Management, and to assess the performance of the Board and its committees. Moreover, the Committee assists the Board of directors in the supervision of the short and long term remuneration systems. It recommends the members' remuneration for approval subject to the provisions of the Islamic Shari'a and best international practices. The Board of Directors appoints the members of the Committee whose number shall not be less than 3 members including the Committee Chairman. They shall hold the office for three years or for the period remaining in the Board term.

The Committee holds its meetings whenever needed but at least twice a year. In 2014, the Committee held 7 meetings to undertake its duties including 4 meetings held by the Committee in its current form in the current session with an attendance percentage of 94%. Committee members met 3 times in the previous form in the twelfth session with an attendance percentage of 100%. The Committee adopted a number of resolutions in its current form during 2014 which have been recorded in the minutes of the last meeting of the Nomination and Remuneration Committee as passed resolutions.

The key functions of the Nomination and Reward Committee include without limitation:

- Nomination of persons qualified to act as Board members based on the approved policies and the standards and instructions issued by the Central Bank of Kuwait in relation to nomination regulations. The nomination covers all members including those whom the Committee does not recommend their nomination on sound and objective justifications.

- Nomination of the CEO and his deputies, the Head of Financial Control and any other director reporting directly to the CEO with the exception of the Head of Risk Management who is elected by the Risk Committee, the Head of Audit and Head of Compliance who are elected by the Audit and Compliance Committee and the Customer Complaints Manager.
- Annual revision of the Board members' required skills, identification of skills that the Board and committees members should develop and submission of suggestions regarding the Board structure in a way that serves the Bank's interests.
- Annual evaluation of the overall performance of the Board and the performance of individual members.
- Developing the powers and functions of every executive or leadership job in the Bank and setting the job responsibilities and required responsibilities in collaboration with Human Resources and relevant departments.
- Providing suggestions related to the Bank fixed and variable remuneration policy structure and raising the same to the Board for approval.
- Periodic revision of the remuneration policy or as recommended by the Board and submission of recommendations to the Board for the amendment / updating of such policy.
- Conducting a periodic assessment of the adequacy and effectiveness of the remuneration policy to ensure the achievement of the declared objectives.
- Submission of necessary recommendation to the Board in relation to Board members' remuneration.
- Review of the financial remuneration plan structures related to share options for approval of the Board.
- Studying the remuneration recommendations submitted by executive management concerning remuneration, CEO remuneration and executive management remuneration.
- Working with the Risk Committee to evaluate the suggested incentives under the remuneration system.
- Independent annual revision of the remuneration system to evaluate the Bank compliance with the financial remuneration practices.
- Providing all remuneration granted to Bank representatives in its affiliates.

A schedule of the names of Board Member in the Nomination and Remuneration Committee in its current form and the number of meetings held in 2014

Name	Dates of meetings in 2014				Attendance percentage
	11 May	13 July	2 Nov	8 Dec	
Mr. Dr. Abdulaziz Yaqoub Al-Nafisi (Chairman)	√	√	√	√	100%
Mr. Khaled Abdulaziz Al Hasson	√	√	√	√	100%
Mr. Ali Mohammad Al Olaimi	√	√	√	√	100%
Mr. Noor Al Rahman Abid	√	√	-	√	75%

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

6.3 Risk Committee

The key role of the Risk Committee is to assist the Board of directors in meeting its obligations in terms of overall supervision of the current risk positions, and any subsequent risk arising out of it. The Committee also assists in the bank's risk strategies particularly the bank's appetite for credit, banking, real estate and investment activities. The Committee also supervises the bank's risk policies and procedures. The membership of this Committee is based on the appointment by the Board and shall consist of at least three members including the Committee chairman and vice chairman. Their membership in this Committee coincides with their Board membership.

The Committee held 5 meetings in 2014 in order to perform its duties. The participation of Committee members in the session of the current thirteenth Board had an attendance percentage of 90%.

The Committee performs a number of duties including:

- Reviewing and evaluating the policies and frameworks of risk management and ensuring their implementation according to the principles and provisions of the Islamic Shari'a.

- Reviewing the capability and effectiveness of risk management in the program of risk management with the institutions with whom the Bank deals.
- Ensuring the appropriateness of the risk appetite adopted by the Bank and the Board and ensuring the identification of key risks.
- Reviewing the adequacy of Bank risk management practices on a quarterly basis at least.
- Reviewing the standards of risk management and internal control to ensure the proper management of material risks in Bank businesses and provide supervision over credit risk, capital market risk, liquidity risk, liability management, legal risk and all relevant risks.
- Reviewing the adequacy of the risk management practices at least once per year.
- Reviewing the standards and trends of the capital adequacy based on risks.
- Reviewing the new regulatory instructions in the capital markets and the amendments to the accounting standards and other developments.
- Reviewing the risk management structure, duties and responsibilities and supervision of risk management and annual assessment of the head of risks.

A schedule of the names of Board Members in the Risk Committee in its current form and the number of meetings held in 2014

Name	Dates of meetings in 2014					Attendance percentage
	13 May	19 June	9 Sept	13 Nov	17 Dec	
Mr. Ahmad Abdullah Abdul Aziz Al Omar (Chairman of the Committee)	√	√	√	√	√	100%
Mr. Dr. Abdulmohsen Al Jarallah Al Kharafi	√	√	-	√	-	60%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	100%
Mr. Muad Saud Al-Osaimi	√	√	√	√	√	100%

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

6.4 Governance Committee

The Corporate Governance Committee is primarily tasked with assisting the Board of Directors in supervising the compliance department with the sound corporate governance practices and developing governance guidelines and policies. It also monitors the implementation of corporate governance policies and ensures the Board, Committees and executive management comply with the governance manual.

The Board Governance Committee comprises three Board members including the Committee Chairman and Vice chairman. Membership in this Committee coincides with Board membership.

The Committee holds its meetings whenever required provided that the number of meetings shall not be less than two meetings per year. The Committee held 3 meetings in 2014 out of which two meetings were held in its current form with attendance percentage of 100% while the Committee held one meeting in its previous form in the Board's twelfth session.

The Governance Committee duties include:

- Development of the governance manual and framework, and providing suggestions for its revision and change from time to time.
- Review Bank policies and practices to ensure their adequacy in terms of governance standards.
- Review and assess the professional code of ethics, code of conduct and other approved policies and guidelines in the Bank.
- Review the key issues related to shareholders' relations and the Bank contributions in charity works.
- Review the corporate governance section in the annual report.
- Annual evaluation of performance in terms of the Governance Committee and its duties as well as the annual revision of the Committee powers and functions.

A schedule of the names of Board Members in the Governance Committee in its current form and the number of meetings held in 2014

Name	Dates of meetings in 2014		Attendance percentage
	22 June	5 Nov	
Mr. Dr. Abdulmohsen Abdullah Al Jarallah Al Kharafi (Chairman of the Committee)	√	√	100%
Mr. Hamad Abdulmohsen Al-Marzouq	√	√	100%
Mr. Abdulaziz Yakoub Al Nafisi	√	√	100%

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

6.5 Executive Committee

The key role of the Executive Committee is to assist the Board of Directors in fulfilling their obligations related to investment and banking activities according to the powers delegated by the Board to the Committee. The Board may assign to the Committee any other duties that may help the Board perform its duties and responsibilities. The Board shall appoint Committee members who shall not be less than five members. The Board also appoints the Committee Chairman from its members. The membership of the Committee shall be for three years or for the period remaining from the Board term.

The Committee held 7 meetings in 2014 to perform its duties and functions with an attendance percentage of 94%. In its current form, the Committee adopted a number of resolutions in 2014 recorded in 8 meeting minutes for the Executive Committee resolutions as passed.

The key duties of the Executive Committee include without limitation:

- Supervision of the strategy implementation mechanism, the Bank action plan and monitoring performance efficiency.
- Review performance reports and raising necessary recommendations in this regard to the Board.
- Review and approve financing transactions and investment offers made by the Executive Management according to the authorizations and delegations bylaw set by the Board.
- Approval or refusal of any suggestions related to finance, liquidity and / or market risks within the financial powers approved by the Board in relation to the minimum credit concentration of a single customer.
- Revision of the management strategy in relation to the suggestions of provisions and the management's plan for the recovery of bad debts if any.
- Periodic revision of the diversity and robustness of the finance and facilities portfolio.
- Coordination with the Risk Committee to prepare periodic reports for the updating risk limits and possible aggravation.
- Approval of nomination of qualified persons to join the Board of directors of companies and entities in which the Bank has shares in their capital (in its comprehensive definition) of less than KD 100 million.

A schedule of the names of Board Members in the Executive Committee in its current form and the number of meetings held in 2014

Name	Dates of meetings in 2014							Attendance percentage
	4 May	11 June	16 July	17 Sep	15 Oct	19 Nov	15 Dec	
Mr. Hamad Abdulmohsen Al-Marzouq (Committee Chairman)	√	√	√	√	√	√	√	100%
Mr. Khaled Salem Al Nisf	√	√	√	√	√	√	√	100%
Mr. Khaled Abdulaziz Al Hasson	√	√	√	√	√	√	√	100%
Mr. Ali Mohammad Al Olaimi	-	√	√	√	-	√	√	71%
Mr. Fahad Ali Al Ghanim	√	√	√	√	√	√	√	100%
Mr. Muad Saud Al-Osaimi	√	√	√	√	√	√	√	100%

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

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 Audit & Compliance Committee, which also receives reports of reviews undertaken by the Bank's Internal Audit Department. The Audit & Compliance Committee reviews the management letters issued by the external financial auditors and holds periodic meetings with them. Additionally, the Audit & Compliance 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 2014, 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.

State of Kuwait.

Dear Sirs,

Report on Accounting and Other Records and Internal Control Systems

In accordance with our letter of engagement dated March 12, 2014, 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 2013.

We covered the following areas of the Bank:

1- Risk Management
2- Investment
3- Treasury
4- Wholesale Banking
5- Retail Banking
6- Real Estate Financing
7- Financial Control
8- Operations
9- Human Resources & General Services
10- Information Technology
11- Business Excellence
12- Wealth Management
13- International Banking
14- Strategy & Corporate Affairs
15- Internal Audit
16- Customer Complaints
17- Legal
18- Anti Money Laundering
19- Sharia Control & Advisory

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
- KFH Capital (formerly Muthana Investment Company)
- Aref Investment Company
- KFH Private Equity
- KFH Investments (formerly Liquidity Management House)
- KFH Financial Services
- Saudi KFH

Our examination has been carried out as per the requirements of the Central Bank of Kuwait (CBK) circular dated 11 February, 2014 considering the requirements contained in the Manual of General Directives issued by the CBK on 15 June 2003, instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks and International Standards on Assurance Engagements.

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 2013, 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, instructions dated 20 June 2012 concerning Corporate Governance Rules at Kuwaiti Banks, with the exception of the matters set out in the report. These exceptions do not have a material impact on the fairness of the financial statements.

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.

Dr. Shuaib A. Shuaib
License No. 33 – A
RSM Albazie & Co.

State of Kuwait
June 29, 2014

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 28 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 2014. 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 2014 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 2,031,719. 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 2,452,881. 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.

2. **Financial and Risk Control Staff:**

   The total remuneration paid to this category amounted to KD 2,491,636. 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 1,047,479. 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.

Risk Management Activities Report 2014

1. Developments in Risk Management during 2014

During 2014, 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.

The Department 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 monitor and report the financial and management performance indicators according to the CAMEL-BCOM method on a quarterly basis and submitted the results to the Board of Directors.

A key development in 2014 was the continuation of implementation of the Bank's Capital optimization Plan and the associated capital allocation framework. The underlying principle of the plan is to establish a more efficient basis for managing capital in the Bank's group-wide operations.

In cooperation with Finance & Accounting, Risk Management implemented Basel III calculation model required by Kuwait Central Bank and quarterly reported KFH CAR based on Basel III as well Basel II.

During the course of 2014 KFH approved list of core risk policies currently being implemented with ongoing reviews & enhancement. Continue with implementing Moody's credit rating system for Corporate, SME financing, R.E & Financial Institutions modules. assessed the bank's risk profile through risk assessment models to and accordingly monitoring against the board approved risk appetite. Defined and implemented a liquidity plan and contingency funding plan that includes periodic monitoring of liquidity at the bank and group level, trigger points for escalation and for initiation of corrective measures, and definition of responsibilities. Rollout risk appetite framework to align business and risk, increase share of high rated customer financing and reduce exposure to customers with less credit worth rating, upgrade and enforce credit and investment policies, and conduct regular review of credit and investment portfolios to track performance and identify improvement options

The Risk Management Department has structural changes during 2014 to cover Anti Money Laundering & Debt Restructuring units.

A significant governance initiative at the end of 2014 saw Board approval for the adoption of a Group-wide liquidity management framework under the auspices of the newly established Group ALCO. This will be used in 2015 to tighten controls over liquidity management in both banking and non-banking subsidiaries, set bank and country limits at the parent company level, with appropriate allocations to subsidiaries, optimize inter-company liquidity management, establish a more efficient and significantly larger presence for KFH in the wholesale funding markets and also help to optimize the capital structure of all strategic investments.

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 Committee (BRC) 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 BRC 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.

Capital
Adequecy Disclosures

Capital Adequacy Disclosures - Basel III

Qualitative and quantitative disclosures related to Capital Adequacy Standard under Basel III have been prepared in accordance with Central Bank of Kuwait instructions and regulations issued as per their circular **2/RB, RBA/336/2014 dated 24 June 2014** 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 Turkish Participation Bank:** is a 62% (2013: 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.

1.2 **Kuwait Finance House B.S.C.:** is a 100% (2013: 100%) 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.

1.3 **Kuwait Finance House (Malaysia) Berhard:** is a 100% (2013: 100%) owned Islamic Bank registered in Malaysia since 2006. Its main activities include providing Islamic finance products, investment in real estate, and corporate finance.

1.4 **Kuwait Finance House Capital Investment Company K.S.C. (Closed):** is a 100% (2013: 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% (2013: 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% (2013: 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% (2013: 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% (2013: 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% (2013: 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% (2013: 97%) owned subsidiary whose activities include marketing, developing of hardware and software and other activities that include providing specialized technical consultancies.

1.11 **KFH Private Equity Ltd:** is a 100% (2013: 100%) owned investment company registered at the Cayman Islands. Its main activities comprise global private equity investments

1.12 **KFH Financial Services Ltd:** is a 100% (2013: 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.

1.13 **ALAFCO – Aviation Lease & Finance Company K.S.C. (Closed):** is a 53% (2013: 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% (2013: 53%) 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 56% (2013: 50%) owned subsidiary engaged in real estate activities including operating leases.

1.16 **Public Service Company K.S.C. (Closed):** is a 80% (2013: 80%) owned subsidiary engaged in management consultancy and services.

1.17 **Turkapital Holding B.S.C. (C):** is a 51% (2013: 51%) owned subsidiary registered in Bahrain engaged in real estate, auto leasing and insurance.

1.18 **Muthana Islamic Index Fund:** is a 55% (2013: 55%) owned subsidiary engaged in Islamic equity investment activity.

1.19 **Al Salam Hospital Co. K.S.C. (Closed):** is a 55% (2013: 55%) owned subsidiary engaged in healthcare services.

1.20 **Muthana GCC Islamic Banks Fund:** is 87% (2013: 87%) owned subsidiary engaged in islamic equity investment activity.

1.21 **E'amar:** is a 100% (2013: 100%) wholly owned subsidiary registered in Cayman Islands engaged in islamic investments.

1.22 **Gulf International Automobile Trading Company K.S.C. (Closed):** is a 100% (2013: 100%) wholly owned subsidiary engaged in trading, import and export of used cars.

2. **Direct Investment in Associates:**

2.1 **First Takaful Insurance Company K.S.C. (Closed):** is a 28% (2013: 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.

2.2 **Gulf Investment House K.S.C. (Closed):** is 20% (2013: 20%) owned associate. Its main activities include investment and financing activities and financial & advisory services.

2.3 **Sharjah Islamic Bank P.J.S.C. :** is a 20% (2013: 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.

2.4 **Specialties Group Holding Company K.S.C. (Closed):** is 39% (2013: 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.

2.5 **Ibdar Bank** is a 40% (2013: 29%) owned bank registered in Bahrain. its main activities include providing Islamic banking and finance services and products, corporate finance, Treasury investments and asset management services.

Second: Capital Structure - Basel III

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 structure or complex equity instruments which prohibited with Islamic Shari'a principle.

As at 31 December 2014, Tier (1) "Core Capital" amounted KD 1,785,838 thousand ,Tier" (2) Supplementary Capital" amounted KD 175,829 thousand.

	2014 (KD' 000)
Capital Structure	
Tier (1) Core Capital	
Share Capital	433,185
Disclosed reserves	1,259,835
Eligible Minority interest in consolidated subsidiaries	230,384
Year Profit	126,476
Total (1)	2,049,880
Deduction from Tier (1) – Core Capital	
Treasury shares	52,498
Goodwill	6,605
Other Intangibles	55,188
Dividends (Declared but not incurred)	63,935
Total (2)	178,226
Total Tier (1) capital before	1,871,654
Deductions from Capital Base arising from Investments in FIs where ownership is > 10%	85,816
A) Total Tier (1) capital	**1,785,838**
Tier (2) Supplementary Capital	
Eligible Minority interest in consolidated subsidiaries	46,077
General provisions	129,752
Total (3)	175,829
B) Total tier (2) of capital	175,829
Total Available Capital	1,961,667

Third: Capital Adequacy Ratios

At 31st of December 2014 the total Capital Adequacy ratio 16.25% and Tier (1) 14.80 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.

Fourth: Risk weighted assets and Minimum Capital Requirement

1. Credit risk

The minimum required capital for credit risk exposures was KD 1,328,650 thousand as at 31 December 2014

					2014 (KD' 000)
Ser.	Exposures to credit risks	Total Exposures	Net Exposures	Risk weighted Assets	Required Capital
1	Cash item	341,910	341,910	-	-
2	Claims on sovereigns	3,332,663	3,329,525	366,465	47,640
3	Claims on public sector entities	48,066	48,066	7,740	1,006
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	2,033,007	2,033,007	483,034	62,794
6	Claims on corporates	3,866,281	3,051,316	2,294,973	298,347
7	Regulatory retail exposure	3,226,293	3,020,825	1,898,675	246,828
8	Qualifying residential housing financing facilities	542,894	261,969	73,826	9,597
9	Past due exposures	601,485	415,655	196,198	25,506
10	Inventory and commodities	585,875	585,875	874,192	113,645
11	Real estate investments	718,316	718,316	1,156,860	150,392
12	Investment and financing with customers	1,892,052	1,177,716	1,342,936	174,582
13	Sukuk and taskeek	161,942	161,942	107,171	13,932
14	Other exposures	1,503,672	1,503,672	1,418,312	184,381
	Total	**18,854,456**	**16,649,794**	**10,220,382**	**1,328,650**

2. Market risk

Market Risk Weighted Exposure during the financial year 2014 amounted KD 521,744 thousand, based on the standardized approach. The minimum required capital for market risk exposures amounts to KD 67,827 thousand .

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

3. Operational risk

Operational risk weighted exposures calculated during the year 2014 amounted to KD 1,328,315 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 172,681 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 defense" system for managing risk:

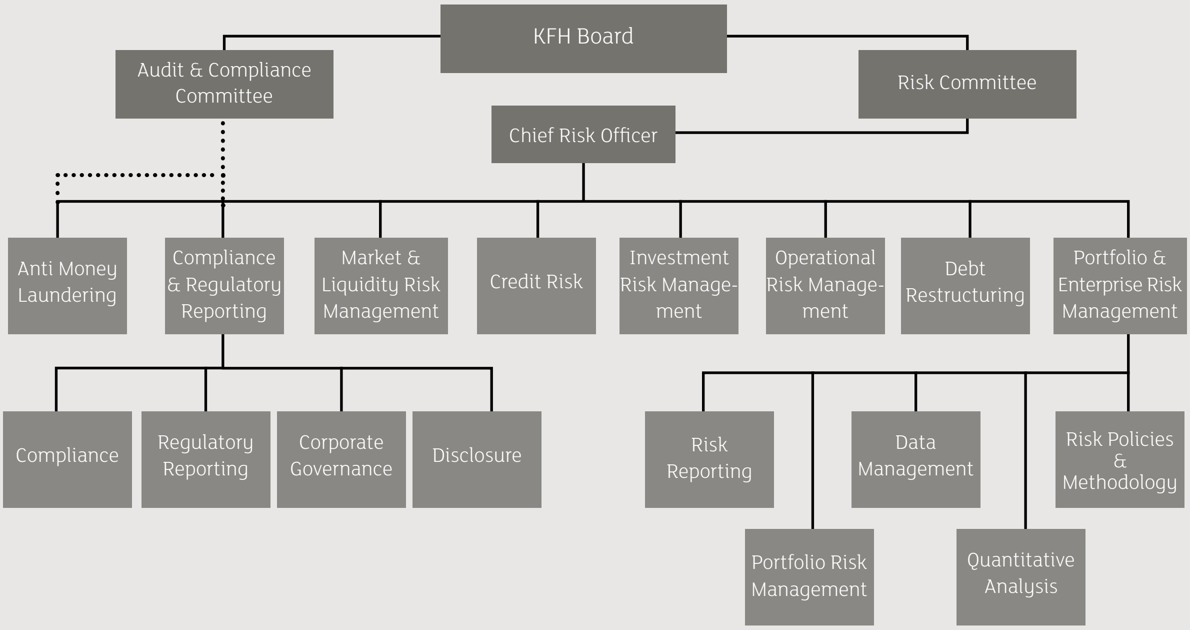
- The first line of defense is the business unit, which manages the relationship with the customer. Its responsibility is to understand customer requirements to mitigate the risk of default or early withdrawal of deposits and to maintain and improve the processes through which KFH serves the customer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

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 Committee and the Board Audit and Compliance 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) who has direct access to the Board Risk Committee and an independent Head of Internal Audit who has direct access to the Board Audit and Compliance Committee. 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 ,while the Group CRO maintain daily contact with the subsidiaries for risk management and control operations.

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.

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.

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 risk to which the Group is exposed is:

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

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)

2014 (KD' 000)

Ser.	Credit risk exposures	Net credit exposures	Rated exposures	Unrated exposures
1	Cash item	341,910	-	341,910
2	Claims on sovereigns	3,329,525	3,113,331	216,194
3	Claims on public sector entities	48,066	-	48,066
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	2,033,007	1,822,018	210,989
6	Claims on corporates	3,051,316	820,607	2,230,709
7	Regulatory retail exposure	3,020,825	-	3,020,825
8	Qualifying residential housing financing facilities	261,969	-	261,969
9	Past due exposures	415,655	-	415,655
10	Inventory and commodities	585,875	-	585,875
11	Real estate investments	718,316	-	718,316
12	Investment and financing with customers	1,177,716	183,877	993,839
13	Sukuk and taskeek	161,942	161,942	-
14	Other exposures	1,503,672	-	1,503,672
	Total	**16,649,794**	**6,101,775**	**10,548,019**

Total Credit Risk exposures classified as “Self Financed or Financed from Investment Accounts:

		2014 (KD’000)	
Ser.	Credit risk exposures	Self financed	Finance form Investment Accounts
1	Cash item	217,288	124,622
2	Claims on sovereigns	2,117,950	1,214,713
3	Claims on public sector entities	30,546	17,519
4	Claims on multilateral development banks	-	-
5	Claims on banks	1,306,774	726,233
6	Claims on corporates	2,945,756	920,526
7	Regulatory retail exposure	2,120,363	1,105,930
8	Qualifying residential housing financing facilities	345,016	197,878
9	Past due exposures	384,651	216,834
10	Inventory and commodities	372,331	213,544
11	Real estate investments	456,627	261,689
12	Investment and financing with customers	1,202,731	689,321
13	Sukuk and taskeek	102,916	59,026
14	Other exposures	955,769	547,903
	Total	12,558,718	6,295,738

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

				2014 (KD’000)
Ser.	Credit risk exposures	Average Credit Risk Exposure	Average Self-financed	Average Finance form Investment Accounts
1	Cash item	313,769	197,484	116,285
2	Claims on sovereigns	3,183,193	2,003,403	1,179,790
3	Claims on public sector entities	50,660	31,862	18,798
4	Claims on multilateral development banks	-	-	-
5	Claims on banks	1,960,484	1,246,604	713,880
6	Claims on corporates	3,765,052	2,815,816	949,236
7	Regulatory retail exposure	3,166,795	2,050,843	1,115,952
8	Qualifying residential housing financing facilities	503,565	317,014	186,551
9	Past due exposures	596,640	376,334	220,306
10	Inventory and commodities	581,663	365,958	215,705
11	Real estate investments	697,777	439,320	258,457
12	Investment and financing with customers	1,884,177	1,186,188	697,989
13	Sukuk and taskeek	224,741	141,225	83,516
14	Other exposures	1,575,056	990,956	584,100
	Total	18,503,572	12,163,007	6,340,565

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

2014
(KD' 000)

Ser.	Credit risk exposures	MENA	North America	Europe	Asia	Others	Total
1	Cash item	66,209	-	271,933	2,545	1,223	341,910
2	Claims on sovereigns	2,218,757	-	813,251	288,345	12,310	3,332,663
3	Claims on public sector entities	48,066	-	-	-	-	48,066
4	Claims on multilateral development banks						
5	Claims on banks	1,421,152	58,654	313,437	221,705	18,059	2,033,007
6	Claims on corporates	808,749	119,047	2,550,927	358,481	29,077	3,866,281
7	Regulatory retail exposure	2,104,561	18	766,897	354,641	176	3,226,293
8	Qualifying residential housing financing facilities	58,929	-	465,242	18,723	-	542,894
9	Past due exposures	469,335	-	24,146	108,004	-	601,485
10	Inventory and commodities	229,483	11,845	121,374	223,173	-	585,875
11	Real estate investments	551,583	70,197	28,073	67,969	494	718,316
12	Investment and financing with customers	1,757,621	7,333	54,666	72,432	-	1,892,052
13	Sukuk and taskeek	79,517	2,990	13,033	54,641	11,761	161,942
14	Other exposures	1,177,188	73,842	151,863	90,809	9,970	1,503,672
	Total	**10,991,150**	**343,926**	**5,574,842**	**1,861,468**	**83,070**	**18,854,456**

Maturities of total Credit Risk exposures

2014
(KD' 000)

Ser.	Credit Risk exposures	Up to 3 months	3 to 12 months	Over 1 year	Total
1	Cash item	336,931	-	4,979	341,910
2	Claims on sovereigns	2,488,915	434,910	408,838	3,332,663
3	Claims on public sector entities	-	-	48,066	48,066
4	Claims on multilateral development banks	-	-	-	-
5	Claims on banks	1,467,829	538,348	26,830	2,033,007
6	Claims on corporates	696,911	960,727	2,208,643	3,866,281
7	Regulatory retail exposure	264,635	346,767	2,614,891	3,226,293
8	Qualifying residential housing financing facilities	4,256	18,022	520,616	542,894
9	Past due exposures	219,608	128,311	253,566	601,485
10	Inventory and commodities	0	6,734	579,141	585,875
11	Real estate investments	18,856	26,094	673,366	718,316
12	Investment and financing with customers	608,347	591,486	692,219	1,892,052
13	Sukuk and taskeek	4,398	21,293	136,251	161,942
14	Other exposures	248,807	163,074	1,091,792	1,503,672
	Total	**6,359,493**	**3,235,766**	**9,259,198**	**18,854,456**

Main sectors of total Credit Risk exposures

2014
(KD'000)

Ser.	Credit risk exposures	Manufacturing & Trade	Banks and financial institutions	Construction & real estate	Government	Others	Total
1	Cash item	-	279,058	50	-	62,802	341,910
2	Claims on sovereigns	-	889,446	-	2,198,753	244,464	3,332,663
3	Claims on public sector entities	-	-	-	-	48,066	48,066
4	Claims on multilateral development banks	-	-	-	-	-	-
5	Claims on banks	2,412	2,013,964	11,170	-	5,461	2,033,007
6	Claims on corporates	2,033,328	90,658	761,593	30,743	949,959	3,866,281
7	Regulatory retail exposure	339,550	6,507	357,290	3,639	2,519,307	3,226,293
8	Qualifying residential housing financing facilities	-	-	58,648	-	484,246	542,894
9	Past due exposures	119,857	121,000	280,673	72	79,883	601,485
10	Inventory and commodities	3,667	-	-	-	582,208	585,875
11	Real estate investments	-	-	665,744	-	52,572	718,316
12	Investment and financing with customers	167,442	2,765	582,658	-	1,139,187	1,892,052
13	Sukuk and taskeek	-	126,665	6,330	-	28,947	161,942
14	Other exposures	60,718	345,969	437,215	6,500	653,270	1,503,672
	Total	**2,726,974**	**3,876,032**	**3,161,371**	**2,239,707**	**6,850,372**	**18,854,456**

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 2014, the Bank's non-performing finance facilities including receivables, leased assets and non-cash facilities amounted KD 892,021 :2013) KD 844,381 thousand ,(KD 835,855 thousand :2013) KD 799,933 thousand (after excluding deferred revenue and suspended profit and KD 376,719 thousand :2013) KD 409,699 thousand (after excluding eligible collaterals in accordance with CBK regulations for specific provision calculation.

   As at 31 December ,2013 Group's provisions amounted KD 517,244 thousand :2013) KD 521,261 thousand), including general provisions that amounted KD 289,506 thousand (2013: KD 271,258 thousand).

Irregular and past due financing facilities exposures based on standard portfolios

2014
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Claims on banks	-	-	-	-	3
2	Claims on corporate	585,973	160,596	425,377	79,550	279,004
3	Regulatory retail exposure	91,856	48,403	43,453	11,932	160,202
4	Qualifying residential housing financing Facilities	7,626	2,491	5,135	256	22,213
5	Investment and financing with customers	206,566	16,248	190,318	0	6,411
	Total	892,021	227,738	664,283	91,738	467,833

Irregular and past due financing facilities exposures based on geographical distribution

2014
(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	638,531	127,821	510,710	75,878	288,579
2	North America	998	881	117	-	-
3	Europe	72,744	40,482	32,262	6,359	116,053
4	Asia	179,748	58,554	121,194	9,501	63,201
	Total	892,021	227,738	664,283	91,738	467,833

Irregular and past due financing facilities exposures based on Industrial

2014
(KD' 000)

Ser.	Description of credit risk exposures	Impaired	Specific Provision	Net financing facilities	Specific Provisions Write Off	Past Due
1	Manufacturing and Trade	164,607	71,968	92,639	27,914	118,246
2	Banks and financial institutions	135,252	27,576	107,676	8,449	94
3	Constructions & real estate	461,730	75,686	386,044	3,869	162,126
4	Others	130,432	52,508	77,924	51,506	187,367
	Total	892,021	227,738	664,283	91,738	467,833

General provision

Ser.	Description of credit risk exposures	2014
1	Claims on banks	4,765
2	Claims on corporates	232,332
3	Regulatory retail exposures	48,649
4	Real estate investments	-
5	Investment and financing with customers	3,760
	Total	289,506

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.

The Bank compliance with the credit concentration limits per customer and maintaining adequate ratios of liquid assets 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

				2014 (KD'000)
Ser.	Credit Risk Exposures	Gross credit exposures	Eligible Collaterals	Banking Guarantees
1	Cash items	341,910	-	
2	Claims on sovereigns	3,332,663	3,137	
3	Claims on public sector entities	48,066	-	
4	Claims on multilateral development banks			
5	Claims on banks	2,033,007	-	-
6	Claims on corporates	3,866,281	814,965	-
7	Regulatory retail exposures	3,226,293	205,468	-
8	Qualifying residential housing financing facilities	542,894	280,925	-
9	Past due exposures	601,485	185,829	-
10	Inventory and commodities	585,875	-	-
11	Real estate investment	718,316	-	-
12	Investment and financing with customers	1,892,052	714,338	-
13	Sukuk and taskeek	161,942	-	-
14	Other exposures	1,503,672	-	-
	Total	18,854,456	2,204,662	

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.

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 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

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.

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 Committee.

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'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.

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 Committee.

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.

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 management 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 Account Related Information

KFH owns several types of investment deposits for customers. The objective of which is to provide customers with a wide range of investment tools to invest and realize profits in a safe and stable manner. KFH has various types of investment deposits which differ based on investment term, profit distribution mechanism and currency type (Kuwaiti Dinar and foreign currency). Investment deposits include Al-Mustamera Investment Deposit, Al-Sedra Investment Deposit, Al-Kawthar Investment Deposit, Al-Khumasiya Investment Deposit and foreign currency deposits; Dimah Investment Deposit and Al-Nuwair Investment Deposit. These types of investment deposits may be opened for individuals, companies and corporate bodies (Committees – Unions – corporations …etc.). Customers should be of legal age - 21 years old. Legal guardians are permitted as per a court order to open a deposit in the name of the minor. Deposits may be opened for companies and corporates as per applicable terms and conditions.

The significance of investment deposits may be attributed to the fact that they provide more stability for banking operations (banks). KFH may invest investment deposits in various productive projects directly or by financing third party projects.

KFH offers several investment saving accounts to encourage customers to save funds and employ these amounts when the need arises and benefit from these savings. Accordingly, KFH offers these accounts to various age categories with different specifications in Kuwaiti Dinar as well as in foreign currency. Accounts offered include; Mumtaz Investment Saving Account in KD, Baiti Saving Account for children and Premier Investment Saving Account in foreign currency. Investment saving accounts may be opened for individuals, corporates and minors as per the terms and conditions relating to each type.

Call accounts are allocated for companies and corporate bodies (Committees – Unions …etc.)

Investment accounts are designed to encourage customers to save funds and assist them in achieving their goals. Customer may withdraw the balance wholly or partially at any time. KFH provides ATM cards free of charge to customers in order to perform deposit and withdrawal transactions from “Al-Shamel” System. KFH pays profits annually on these accounts based on the lowest monthly balance. Islamic banks have given significant consideration to these accounts to encourage customers’ savings.

KFH offers several investment accounts to encourage customers’ savings for future needs while benefiting from the profit realized from saved funds. Accordingly, KFH provides these accounts to various age categories with various specifications. Investment accounts include; saving account plan to pay for higher education of minors “Jameati”, saving account plan for retirement purposes “Thimar”, saving account plan for marriage purposes “Rafaa” and saving account plan for multiple purposes “Injaz”.

All Investment accounts may be opened as per the special terms of each account type.

KFH pays profits annually to account holders. KFH has significantly focused on these accounts to encourage customers’ savings.

All above mentioned accounts shall be invested based on “Mudarabah” and “Wakala” basis as per the investment agreement and profit ratios.

Sixth: Shari’a Controls

Fatwa and Shari’a Supervisory Board

Fatwa and Shari’a Supervisory Board (“FSSB”) follows regulatory policies and procedures to ensure the compliance of all KFH’s sectors and departments to its decisions. To achieve this goal, FSSB may adopt the following:

1. Develop Shari’a training programs for KFH employees on the basic and advanced levels in coordination with the Training and Development - Human Resources and General Services Department - KFH.
2. Ensure the compliance of KFH’s sectors and departments with presenting all their activities to FSSB, to review and approve the contracts and agreements models, policies, procedures and financing structures; with a view of ensuring that they are free of Shari’a prohibitions.
3. Review the periodical and final Shari’a audit reports related to all KFH’s sectors and departments as raised by Shari’a Control and Consultancy Department; to ensure the compliance with Shari’a regulations.
4. Ensure that all revenues recognized from non-Shari’a compliant sources or by means prohibited by Shari’a have been disposed to be used for charity purposes.
5. Zakat is calculated following the CBK’s approval on the Financial Statements of KFH for the year 2014.
6. The General Assembly shall determine the remuneration of the FSSB’s members. Shari’a Control and Consultancy Department has no information in this regard.

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

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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

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 2014, 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 entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 2014, 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 and Financial Leverage Ratio Regulations issued by the Central Bank of Kuwait (“CBK”) as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014, respectively, 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 and Financial Leverage Ratio Regulations issued by the CBK as stipulated in CBK Circular Nos. 2/RB, RBA/336/2014 dated 24 June 2014 and 2/I.B.S. 343/2014 dated 21 October 2014 respectively, the Companies Law No. 25 of 2012, as amended and its executive regulation, or of the Bank’s Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2014 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our audit, we have not become aware of any 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 2014 that might have had a material effect on the business of the Bank or on its 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.

14 January 2015
Kuwait

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED 31 DECEMBER 2014

	Notes	2014 KD 000's	2013 KD 000's
INCOME			
Financing income		645,801	571,362
Finance cost and distribution to depositors		(282,382)	(235,002)
Net finance income		363,419	336,360
Investment income	3	164,554	246,418
Fee and commission income		81,523	79,717
Share of result of associates and joint ventures	11,12	25,107	10,903
Net gain from foreign currencies		27,874	27,263
Other income	4	89,803	58,871
TOTAL OPERATING INCOME		752,280	759,532
EXPENSES			
Staff costs		(182,171)	(169,311)
General and administrative expenses		(116,517)	(106,411)
Depreciation and amortization		(86,941)	(73,921)
TOTAL EXPENSES		(385,629)	(349,643)
Net operating income		366,651	409,889
Provisions and impairment	5	(178,249)	(231,549)
PROFIT BEFORE TAX AND ZAKAT		188,402	178,340
Contribution to Kuwait Foundation for the Advancement of Sciences		(1,317)	(1,201)
National Labour Support Tax		(2,422)	(1,992)
Zakat (based on Zakat Law No. 46/2006)		(857)	(778)
Proposed directors' fees	25	(610)	(580)
Reversal of directors' fees for 2012	28	-	385
Taxation related to subsidiaries		(23,121)	(25,108)
PROFIT FOR THE YEAR		160,075	149,066
Attributable to:			
Shareholders of the Bank		126,476	115,893
Non-controlling interests		33,599	33,173
		160,075	149,066
Basic and diluted earnings per share attributable to the shareholders of the bank	6	29.68 fils	28.72 fils

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2014

		KD 000's
	2014	*(Restated) 2013*
Profit for the year	**160,075**	149,066
Other comprehensive (loss) income		
Other comprehensive (loss) income to be reclassified to consolidated statement of income in subsequent periods:		
Change in fair value of financial assets available for sale during the year	**(1,904)**	(15,130)
Change in fair value of currency swaps, profit rate swaps, and forward foreign exchange contracts for the year	**36**	5
Realised gain on financial assets available for sale for the year	**(7,497)**	(5,949)
Impairment losses transferred to consolidated statement of income	**15,825**	15,304
Share of other comprehensive (loss) income of associates and joint ventures	**(339)**	1,403
Exchange differences on translation of foreign operations	**(10,114)**	(44,966)
Other comprehensive loss for the year	**(3,993)**	(49,333)
Total comprehensive income	**156,082**	99,733
Attributable to:		
Shareholders of the Bank	**133,461**	80,920
Non-controlling interests	**22,621**	18,813
	156,082	99,733

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Notes	2014	(Restated) 2013
			KD 000's
ASSETS			
Cash and balances with banks and financial institutions	7	**1,604,135**	1,070,486
Short-term murabaha	8	**3,222,420**	2,423,501
Financing receivables	9	**8,118,921**	7,595,290
Trading properties		**179,265**	288,928
Investments	10	**1,369,484**	1,343,310
Investment in associates and joint ventures	11,12	**462,710**	490,107
Investment properties	13	**529,285**	524,342
Other assets	14	**639,455**	479,916
Intangible assets and goodwill	15	**61,793**	67,914
Property and equipment	16	**877,362**	812,593
Leasehold rights	17	**117,081**	125,320
Assets classified as held for sale	18	**-**	66,353
TOTAL ASSETS		**17,181,911**	15,288,060
LIABILITIES			
Due to banks and financial institutions	20	**3,451,262**	2,468,526
Depositors' accounts	21	**10,881,392**	10,103,986
Other liabilities	22	**752,216**	748,740
Liabilities directly associated with assets classified as held for sale	18	**-**	13,587
TOTAL LIABILITIES		**15,084,870**	13,334,839
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK			
Share capital	24	**433,185**	383,350
Share premium		**720,333**	720,333
Proposed issue of bonus shares	25	**43,319**	49,835
Treasury shares	24	**(52,497)**	(56,118)
Reserves	23	**537,315**	516,775
		1,681,655	1,614,175
Proposed cash dividend	25	**63,935**	48,968
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		**1,745,590**	1,663,143
Non-controlling interests		**351,451**	290,078
TOTAL EQUITY		**2,097,041**	1,953,221
TOTAL LIABILITIES AND EQUITY		**17,181,911**	15,288,060

HAMAD ABDUL MOHSEN AL-MARZOUQ
(CHAIRMAN)

MAZIN AL-NAHEDH
(GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2014

	Share capital	*Share premium*	*Proposed issue of bonus shares*
As at 1 January 2013 (*as previously reported)*	290,416	464,766	29,042
Effect of restatement (Note 40)	-	-	-
At 1 January 2013 (Restated)	290,416	464,766	29,042
Profit for the year	-	-	-
Other comprehensive loss	-	-	-
Total comprehensive (loss) income	-	-	-
Issue of bonus shares (Note 24)	29,042	-	(29,042)
Zakat paid	-	-	-
Issue of shares for cash (Note 24)	63,892	255,567	-
Cash dividends paid	-	-	-
Distribution of profit:			
Proposed issue of bonus shares (Note 24, 25)	-	-	49,835
Proposed cash dividends (Note 25)	-	-	-
Purchase of treasury shares	-	-	-
Disposal of treasury shares	-	-	-
Non-controlling interest arising on a business combination	-	-	-
Acquisition of non- controlling interests	-	-	-
Disposal of non-controlling interests	-	-	-
Participation of non-controlling interest in capital increase	-	-	-
Dividends paid to non- controlling interests	-	-	-
Net other change in non- controlling interests	-	-	-
At 31 December 2013 (Restated)	383,350	720,333	49,835

The attached notes 1 to 40 form part of these consolidated financial statements.

KD 000's

Attributable to shareholders of the Bank					*Non-controlling interests*	*Total equity*
Treasury shares	*Reserves (Note 23)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
(54,028)	569,473	1,299,669	28,429	1,328,098	311,318	1,639,416
-	(30,749)	(30,749)	-	(30,749)	(31,918)	(62,667)
(54,028)	538,724	1,268,920	28,429	1,297,349	279,400	1,576,749
-	115,893	115,893	-	115,893	33,173	149,066
-	(34,973)	(34,973)	-	(34, 973)	(14,360)	(49,333)
-	80,920	80,920	-	80,920	18,813	99,733
-	-	-	-	-	-	-
-	(4,115)	(4,115)	-	(4,115)	-	(4,115)
-	-	319,459	-	319,459	-	319,459
-	-	-	(28,429)	(28,429)	-	(28,429)
-	(49,835)	-	-	-	-	-
-	(48,968)	(48,968)	48,968	-	-	-
(23,059)	-	(23,059)	-	(23,059)	-	(23,059)
20,969	49	21,018	-	21,018	-	21,018
-	-	-	-	-	6,419	6,419
-	-	-	-	-	(15,459)	(15,459)
-	-	-	-	-	(18,502)	(18,502)
-	-	-	-	-	21,296	21,296
-	-	-	-	-	(3,249)	(3,249)
-	-	-	-	-	1,360	1,360
(56,118)	516,775	1,614,175	48,968	1,663,143	290,078	1,953,221

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

YEAR ENDED 31 DECEMBER 2014

	Share capital	*Share premium*	*Proposed issue of bonus shares*
At 1 January 2014 *(as previously reported)*	383,350	720,333	49,835
Effect of restatement (Note 40)	-	-	-
At 1 January 2014 (Restated)	383,350	720,333	49,835
Profit for the year	-	-	-
Other comprehensive income (loss)	-	-	-
Total comprehensive income	-	-	-
Issue of bonus shares (Note 24)	49,835	-	(49,835)
Zakat paid	-	-	-
Cash dividends paid (Note 25)	-	-	-
Distribution of profit:			
Proposed issue of bonus shares (Note 25)	-	-	43,319
Proposed cash dividends	-	-	-
Disposal of treasury shares	-	-	-
Participation of non-controlling interest in capital increase	-	-	-
Dividends paid to non- controlling interests	-	-	-
Net other change in non- controlling interests	-	-	-
At 31 December 2014	433,185	720,333	43,319

The attached notes 1 to 40 form part of these consolidated financial statements.

KD 000's

Attributable to shareholders of the Bank					*Non-controlling interests*	*Total equity*
Treasury shares	*Reserves (Note 23)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
(56,118)	582,497	1,679,897	48,968	1,728,865	336,356	2,065,221
-	(65,722)	(65,722)	-	(65,722)	(46,278)	(112,000)
(56,118)	516,775	1,614,175	48,968	1,663,143	290,078	1,953,221
-	126,476	126,476	-	126,476	33,599	160,075
-	6,985	6,985	-	6,985	(10,978)	(3,993)
-	133,461	133,461	-	133,461	22,621	156,082
-	-	-	-	-	-	-
-	(6,020)	(6,020)	-	(6,020)	-	(6,020)
-	-	-	(48,968)	(48,968)	-	(48,968)
-	(43,319)	-	-	-	-	-
-	(63,935)	(63,935)	63,935	-	-	-
3,621	353	3,974	-	3,974	-	3,974
-	-	-	-	-	18,731	18,731
-	-	-	-	-	(3,430)	(3,430)
-	-	-	-	-	23,451	23,451
(52,497)	537,315	1,681,655	63,935	1,745,590	351,451	2,097,041

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2014

	Notes	2014	2013
			KD 000's
OPERATING ACTIVITIES			
Profit for the year		160,075	149,066
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortisation		86,941	73,921
Provisions and impairment	5	178,249	231,549
Dividend income	3	(6,646)	(14,765)
Gain on part sale of associates	3	-	(128)
Gain on sale of financial assets available for sale	3	(21,609)	(11,636)
Sukook income	3	(35,039)	(23,710)
Gain on cancellation of aircraft contract	3	-	(7,119)
Gain on settlement of pre-existing transactions between the Group and acquiree companies	3	-	(8,540)
Gain on bargain purchase	3	-	(11,530)
Loss on remeasurement of previously held equity	3	-	3,055
Gain on sale of investment properties	3	(60,684)	(131,627)
Share of results of associates and joint venture	11,12	(25,107)	(10,903)
Other investment income	3	(16,319)	(13,909)
		259,861	223,724
Changes in operating assets and liabilities:			
Financing receivables and short term murabaha		(1,259,311)	(576,520)
Trading properties		109,663	(68,198)
Other assets		(114,439)	329,348
Statutory deposit with Central Banks		(162,317)	(139,845)
Due to banks and financial institutions		982,736	216,955
Depositors' accounts		777,406	711,148
Other liabilities		(48,008)	(4,040)
Net cash flows from operating activities		545,591	692,572
INVESTING ACTIVITIES			
Purchase of investments, net		(123,374)	(14,348)
Purchase of investment properties		(74,285)	(105,781)
Proceeds from sale of investment properties		124,550	259,644
Purchase of property and equipment		(86,580)	(194,669)
Proceeds from sale of property and equipment		37,951	24,199
Purchase of intangible assets, net		(11,452)	(22,751)
Purchase of leasehold rights, net		(122)	(5,210)
Purchase of investments in associates		(11,171)	(40,892)
Proceeds from sale of investments in associates		45,981	14,698
Sukook income received		35,039	23,710
Cash proceeds from cancellation of aircraft contracts		-	7,119
Dividend received		27,907	19,829
Net cash used in investing activities		(35,556)	(34,452)
FINANCING ACTIVITIES			
Increase in share capital		-	319,459
Cash dividends paid		(48,968)	(28,429)
Zakat paid		(6,020)	(4,115)
Proceeds from sale of treasury shares		3,974	21,018
Purchase of treasury shares		-	(2,003)
Acquisition of non-controlling interests		-	(15,459)
Dividend paid to non-controlling interests		(3,430)	(3,249)
Participation of non-controlling interest in capital increase		18,731	21,296
Net cash flows (used in) / from financing activities		(35,713)	308,518
INCREASE IN CASH AND CASH EQUIVALENTS		474,322	966,638
Cash and cash equivalents at 1 January		1,959,000	992,362
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	2,433,322	1,959,000

The attached notes 1 to 40 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 14 January 2015. The general assembly of the shareholders of the Bank has the power to amend these consolidated financial statements after issuance.

The Group comprises Kuwait Finance House K.S.C.P. ("the Bank") and its consolidated subsidiaries (collectively "the Group") as noted in Note 19. 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.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year, except for the following 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 2014 and newly adopted accounting policy relating to "venture capital at fair value through statement of income" as a result of voluntary change in accounting policy.

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

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 and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Venture Capital at fair value through statement of income

During the year ended 31 December 2014, the Group has voluntary changed the accounting policy of certain investments in joint ventures accounted using the equity method to venture capital at fair value through statement of income". The effect on the comparative figure in the consolidated statement of financial position is decrease in investment in joint venture and increase in investments in venture capital by KD 127,487.

In addition to above changes in accounting policy, the Group has changed the presentation of consolidated statement of financial position and consolidated statement of comprehensive income (Note 40).

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 27: Equity Method in Separate Financial Statements

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Bank for the year ended 31 December 2014 and its subsidiaries prepared to a date not earlier than three months of the Bank's reporting date as noted in Note 19. All significant intra-group balances, transactions and unrealized gains or losses resulting from intra group transactions and dividends are eliminated in full.

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 BASIS OF CONSOLIDATION (continued)

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 statement of income.

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

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

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

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

Revenue recognition

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with Central Bank of Kuwait, tawarruq balances with the Central Bank of Kuwait, balances with banks and financial institutions, short-term 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.

Financing receivables

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

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

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

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

Leases

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

Group as a lessee

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

Group as a lessor

Leased assets

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

Operating leases

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Investments

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.

Venture capital at fair value through statement of income

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

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

Non-current assets held for sale and discontinued operations

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

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale 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. Assets and liabilities classified as held for sale 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 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 consolidated statement of income. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

Investment in associates and joint ventures

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

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

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

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

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

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

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

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

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

Investment properties

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

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

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

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

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

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

Freehold land is not depreciated. Depreciation on the building is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives that range from 20 – 50 years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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 life
▪ Exploration rights	10 years
▪ Software development cost	3-5 years
▪ Software license right	15 years
▪ Other rights	3-7 years

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

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

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

Leasehold rights

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

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

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

Precious metals inventory

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

Trade receivable

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

Property and equipment

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

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

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

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

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

Properties under development

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

Taxes

Current income tax

Current income taxes are accounted only for subsidiaries operating in taxable jurisdictions. Current income tax assets and liabilities at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions.

Deferred tax

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

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

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

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

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.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

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

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

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

The following assets have specific characteristics for impairment testing:

Goodwill

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 consolidated statement of income.

Financial guarantees

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

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

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

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

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

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

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment

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

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

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

Cash flow hedges:

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

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

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

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

Hedges of a net investment:

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

Embedded swaps and profit rate contracts

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

Fair value measurement

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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 39 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.

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.

Share-Based Payment

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

Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

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

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

Taxation on subsidiaries

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

Transactions and balances

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

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

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

Group companies

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

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.

Finance cost

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

Other provisions and reserves

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

Reserves for maintenance

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

Employees' end of service benefits

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

Trade and settlement date accounting

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

Offsetting

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

Treasury shares

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

Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not

included in the consolidated statement of financial position. These are disclosed separately in the consolidated financial statements.

Judgments

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgments (continued)

Impairment of goodwill

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

Estimation uncertainty

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

Impairment losses on finance facilities

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

Valuation of unquoted equity investments

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

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

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

Contingent consideration arising from business combinations

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

3 INVESTMENT INCOME

	KD 000's	
	2014	2013
Gain on sale of investment and trading properties	60,684	131,627
Rental income from investment properties	24,257	26,509
Dividend income	6,646	14,765
Gain on part sale of associates	-	128
(Loss) gain on part sale of a subsidiary with loss of control	(312)	1,443
Gain on sale of financial assets available for sale	21,609	11,636
Sukook income	35,039	23,710
Gain on cancellation of aircraft contract	-	7,119
Gain on bargain purchase	-	11,530
Gain on settlement of pre-existing transactions between the Group and acquire companies	-	8,540
Loss on remeasurement of previously held equity	-	(3,055)
Other investment income	16,631	12,466
	164,554	246,418

4 OTHER INCOME

	KD 000's	
	2014	2013
Income from sale of property and equipment	4,467	4,274
Real estate development and construction income	7,641	4,875
Gain on debt settlement	18,550	8,506
Income from maintenance, services, and consultancy	26,535	15,578
Rental income from operating lease	11,225	9,729
Other income	21,385	15,909
	89,803	58,871

5 PROVISION AND IMPAIRMENT

	KD 000's	
	2014	2013
Net impairment on financing receivables (Note 9)	81,937	176,431
Recovery of written-off debts	(42,182)	(17,112)
Impairment of financial assets available for sale	40,064	15,304
Impairment of associates	17,800	20,365
Impairment of investment properties (Note 13)	38,259	1,327
(Reversal of) impairment of property and equipment (Note 16)	(432)	369
Impairment of intangible assets and goodwill (Note 15)	6,422	2,513
Impairment of non cash facilities (Note 9)	5,784	11,240
Impairment of other assets and other provisions	30,597	21,112
	178,249	231,549

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

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

	2014	2013
Profit for the year attributable to the shareholders of the Bank (KD thousands)	**126,476**	115,893
Weighted average number of shares outstanding during the year (thousand shares)	**4,261,242**	4,035,494
Basic and diluted earnings per share attributable to the shareholders of the Bank (fils)	**29.68**	28.72

The Bank has no dilutive potential shares.

The comparative basic and diluted earnings per share have been restated for bonus shares issued (Note 25).

7 CASH AND CASH EQUIVALENTS

		KD 000's
	2014	2013
Cash	**176,362**	147,087
Balances with Central Banks	**857,021**	535,639
Balances with banks and financial institutions – current accounts	**570,752**	384,341
Balances with banks and financial institutions – exchange of deposits	**-**	3,419
Cash and balances with banks and financial institutions	**1,604,135**	1,070,486
Short-term murabaha – maturing within 3 months of contract date	**1,000,390**	732,279
Tawarruq balances with Central Bank of Kuwait - maturing within 3 months of contract date	**450,057**	615,178
Less: Statutory deposits with Central Banks	**(621,260)**	(458,943)
Cash and cash equivalents	**2,433,322**	1,959,000

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

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

		KD 000's
	2014	2013
Due from banks and financial institutions	**37,571**	117,226
Due to banks and financial institutions	**(77,005)**	(113,807)
	(39,434)	3,419

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

8 SHORT-TERM MURABAHA

	2014	2013
		KD 000's
Short-term murabaha with Banks	**1,420,359**	688,383
Short-term murabaha with Central Banks	**1,802,061**	1,735,118
	3,222,420	2,423,501

9 FINANCING RECEIVABLES

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

	2014	2013
		KD 000's
Financing receivables		
Murabaha and wakala	**7,585,941**	6,773,250
Leased assets	**1,912,411**	2,044,309
Istisna'a and other receivables	**136,023**	160,689
	9,634,375	8,978,248
Less: deferred profit	**(1,028,795)**	(886,501)
Net receivables	**8,605,580**	8,091,747
Less: impairment	**(486,659)**	(496,457)
	8,118,921	7,595,290

The distribution of receivables is as follows:

	2014	2013
		KD 000's
Industry sector		
Trading and manufacturing	**4,265,597**	3,552,427
Banks and financial institutions	**192,701**	375,600
Constructions and real estates	**3,126,644**	3,166,912
Other	**2,049,433**	1,883,309
	9,634,375	8,978,248
Less: deferred profit	**(1,028,795)**	(886,501)
Net receivables	**8,605,580**	8,091,747
Less: impairment	**(486,659)**	(496,457)
	8,118,921	7,595,290

9 FINANCING RECEIVABLES (continued)

Geographic region	2014	2013
	KD 000's	
Middle East	5,379,943	5,613,043
Europe	3,094,894	2,659,072
Other	1,159,538	706,133
	9,634,375	8,978,248
Less: deferred profit	(1,028,795)	(886,501)
Net receivables	8,605,580	8,091,747
Less: impairment	(486,659)	(496,457)
	8,118,921	7,595,290

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

	Specific		General		Total	
	2014	2013	2014	2013	2014	2013
						KD 000's
Balance at beginning of year	238,107	207,584	258,350	261,463	496,457	469,047
Provided during the year (Note 5)	64,213	175,341	17,724	1,090	81,937	176,431
Amounts written off; net of foreign currency translation	(93,248)	(144,818)	1,513	(4,203)	(91,735)	(149,021)
Balance at end of year	209,072	238,107	277,587	258,350	486,659	496,457
Murabahas and wakalas	160,948	183,856	251,800	232,440	412,748	416,296
Leased assets	13,620	39,159	2,145	23,659	15,765	62,818
Istisna'a and other receivables	34,504	15,092	23,642	2,251	58,146	17,343
	209,072	238,107	277,587	258,350	486,659	496,457

Non performing cash and non-cash financing facilities

At 31 December 2014, non-performing finance facilities (net of collateral) amounted to KD 351,966 thousand (2013: KD 409,699 thousand).

	Pre-invasion	Post liberation	Total
			KD 000's
2014			
Finance facilities	7	351,959	351,966
Impairment	7	227,731	227,738
2013			
Finance facilities	8	409,691	409,699
Impairment	8	249,995	250,003

The charge of provision for the year on non-cash facilities is KD 5,784 thousand (2013: charge of KD 11,240 thousand) (Note 5). The available provision on non-cash facilities of KD 30,588 thousand (2013: KD 24,804 thousand) is included under other liabilities (Note 22).

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

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

	KD 000's	
	2014	2013
Within one year	**1,415,798**	1,551,308
One to five year	**243,262**	288,053
After five years	**253,351**	204,948
	1,912,411	2,044,309

The unguaranteed residual value of the leased assets at 31 December 2014 is estimated at KD 539,117 thousand (2013: KD 120,046 thousand).

The fair value of collateral held against leased assets at 31 December 2014 is KD 3,687,253 thousand (2013: KD 3,618,951 thousand).

10 INVESTMENTS

	KD 000's	
	2014	2013
Sukook	**857,311**	686,857
Managed portfolios	**135,794**	157,796
Unquoted equity investments	**135,185**	213,816
Venture capital at fair value through statement of income	**133,974**	127,487
Mutual funds	**62,697**	101,288
Quoted equity investments	**44,523**	56,066
	1,369,484	1,343,310
Financial assets available for sale at fair value	**1,005,257**	858,384
Financial assets available for sale carried at cost	**230,253**	357,439
Venture capital at fair value through statement of income	**133,974**	127,487
	1,369,484	1,343,310

Included in managed portfolios are an amount of KD 58,865 thousand (2013: KD 57,229 thousand) which represents the Bank's investment in 82,909 thousand shares (2013: 73,370 thousand shares) of the Bank's shares on behalf of depositors, equivalent to 1.91 % of the total issued share capital at 31 December 2014 (2013: 1.91%). The results from activities relating to dealing in these shares are attributed only to the depositors, and hence these shares are classified under investments.

11 INVESTMENT IN ASSOCIATES

The major associates of the Group are as follows:

	Interest in equity %		*Country of registration*	*Principal activities*	*Financial statements reporting date*
	2014	*2013*			
Specialties Group Holding Company K.S.C. (Closed)	**39**	40	Kuwait	Holding investments	30 September 2014
First Takaful Insurance Company K.S.C. (Closed)	**28**	28	Kuwait	Islamic takaful insurance	30 September 2014
Sharjah Islamic Bank P.J.S.C.	**20**	20	United Arab Emirates	Islamic banking services	30 September 2014
Ibdar Bank BSC (Formerly Elaf Bank)	**40**	29	Bahrain	Islamic banking service	30 September 2014

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

Summarised consolidated statement of financial position:

	KD 000's	
	2014	*2013*
Assets	**2,822,385**	2,610,014
Liabilities	**(1,910,235)**	(1,658,637)
Equity	**912,150**	951,377
Carrying amount of the investment	**256,683**	267,660

Summarised consolidated statement of income:

Revenues	**264,640**	331,243
Expenses	**(220,517)**	(282,061)
Profit for the year	**44,123**	49,182
Group's share of profit for the year	**7,236**	10,851

Investments in associates with a carrying amount of KD 99,826 thousand (2013: KD 140,216 thousand) have a market value of KD 85,874 thousand at 31 December 2014 (2013: KD 108,456 thousand) based on published quotes.

Dividend received from the associates during the current year amounted to KD 4,038 thousand (2013: KD 5,068 thousand).

12 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*
	2014	*2013*			
Durrat Khaleej Al-Bahrain Company B.S.C.	**50**	50	Bahrain	Real estate development	30 November 2014
Diyar Homes Company W.L.L (Souq Al Muharraq)	**50**	50	Bahrain	Real estate development	30 November 2014
Al Durrat Al Tijaria Company W.L.L	**50**	50	Bahrain	Real estate development	30 November 2014
Diyar Al Muharraq Company W.L.L.	**52**	52	Bahrain	Real estate development	30 November 2014
PK Development Properties Company W.L.L.	**50**	50	Bahrain	Real estate development	30 November 2014

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

Summarised consolidated statement of financial position:

	KD 000's	
	2014	*2013*
Assets	**650,369**	527,517
Liabilities	**(322,765)**	(90,877)
Equity	**327,604**	436,640
Carrying amount of the investment	**206,027**	222,447

Summarised consolidated statement of income:

	KD 000's	
	2014	*2013*
Revenues	**69,684**	25,821
Expenses	**(33,068)**	(24,948)
Profit for the year	**36,616**	873
Group's share of profit for the year	**17,871**	52

13 INVESTMENT PROPERTIES

	KD 000's	
	2014	2013
At 1 January	524,342	557,264
Arising on consolidation	49,214	5,743
Additions	91,747	81,765
Fair value adjustments	-	13,637
Transfer from property and equipment (Note 16)	-	5,571
Transfer to trading properties	(8,086)	-
Disposals	(81,623)	(129,581)
Depreciation charged for the year	(8,050)	(8,730)
Impairment loss charged for the year (Note 5)	(38,259)	(1,327)
At 31 December	529,285	524,342

	KD 000's	
	2014	2013
Developed properties	403,232	354,220
Properties under construction	188,907	194,717
	592,139	548,937
Less: Impairment	(62,854)	(24,595)
	529,285	524,342

Investment properties with carrying value of KD 16,770 thousand belong to a subsidiary (2013: KD 28,929 thousand) and their rental income are mortgaged and assigned against murabaha payable amounting to KD 9,068 thousand (2013: KD 26,674 thousand).

14 OTHER ASSETS

	KD 000's	
	2014	2013
Precious metals inventory	166,503	51,216
Trade receivable	164,970	190,556
Clearing accounts	82,669	62,575
Receivables on disposals of investment	39,396	55,607
Deferred tax	22,220	25,809
Advances for investment properties	40,727	34,116
Other miscellaneous assets	122,970	60,037
	639,455	479,916

15 INTANGIBLE ASSETS AND GOODWILL

		KD 000's
	2014	2013
Intangible assets	**55,188**	57,098
Goodwill	**6,605**	10,816
	61,793	67,914

Movement of intangible assets is as follows:

		KD 000's
	2014	2013
Cost		
At 1 January	**75,959**	54,437
Additions	**10,975**	26,966
Disposal	**(150)**	(5,444)
Impairment	**(3,077)**	-
At 31 December	**83,707**	75,959
Accumulated amortization		
At 1 January	**18,861**	11,665
Charge for the year	**9,658**	8,425
Disposals	**-**	(1,229)
At 31 December	**28,519**	18,861
Net book value		
At 31 December	**55,188**	57,098

Intangible assets include license of Islamic brokerage company of KD 14,671 thousand (2013: 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 11,818 thousand (2013: KD 17,485 thousand) with finite useful life. Other intangible assets amounted to KD 28,699 thousand (2013: KD 24,942 thousand) represent software development cost, software license right and other rights with finite useful life. Intangible assets with finite lives are amortised over its useful economic life.

During the current year, goodwill amounting to KD 3,345 thousand was impaired (2013: KD 2,513).

16 PROPERTY AND EQUIPMENT

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fix-tures and equipment*	*Motor vehicles*	*Properties under develop-ment*	***2014 Total***
Cost:							
At 1 January 2014	18,015	97,926	762,368	174,739	36,726	64,158	1,153,932
Additions	169	11,766	27,618	8,756	25,468	10,135	83,912
Disposals	-	(862)	(28,519)	(6,695)	(29,586)	(1,232)	(66,894)
Arising from consolidation	6,822	21,746	-	46,828	20,823	239	96,458
At 31 December 2014	25,006	130,576	761,467	223,628	53,431	73,300	1,267,408
Accumulated depreciation:							
At 1 January 2014	-	57,217	144,986	132,124	7,012	-	341,339
Depreciation charge for the year	-	3,513	29,124	23,249	4,986	-	60,872
Relating to disposals	-	(426)	(16,348)	(14,610)	(5,537)	-	(36,921)
Impairment loss reversed for the year (Note 5)	-	-	-	(432)	-	-	(432)
Arising from consolidation	-	11,063	-	11,422	2,703	-	25,188
At 31 December 2014	-	71,367	157,762	151,753	9,164	-	390,046
Net carrying amount:							
At 31 December 2014	25,006	59,209	603,705	71,875	44,267	73,300	877,362

	Land	Buildings	Aircraft and engines	Furniture, fixtures and equipment	Motor vehicles	Properties under development	2013 Total
							KD 000's
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)
Asset classified as held for sale (Note 18)	-	-	-	(40,360)	-	-	(40,360)
Transfer to investment properties (Note 13)	-	-	-	-	-	(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)
Asset classified as held for sale (Note 18)	-	-	-	(9,138)	-	-	(9,138)
Impairment loss charged for the year (Note 5)	-	-	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

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

Buildings include the investment in a commercial complex 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 shareholders of the Bank.

One of the subsidiaries holds a fleet of aircraft with carrying value of KD 508,184 thousand (2013: KD 540,315 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 20% (2013: 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 92,369 thousand (2013: KD 70,094 thousand)

The future minimum lease rent receivable on the operating lease of aircraft is as follows:

	2014	2013
		KD 000's
Income receivable within one year	**56,691**	56,092
Income receivable within one year to five years	**182,895**	208,598
Income receivable after five years	**87,861**	113,243
	327,447	377,933

17 LEASEHOLD RIGHTS

	2014	2013
		KD 000's
Cost		
At 1 January	**131,307**	126,097
Fair value adjustments	**-**	4,824
Addition	**122**	386
At 31 December	**131,429**	131,307
Accumulated amortization		
At 1 January	**5,987**	-
Charge for the year	**8,361**	5,987
At 31 December	**14,348**	5,987
Net book value		
At 31 December	**117,081**	125,320

Leasehold rights represents one of the Group's subsidiaries' right of using a commercial tower which is amortised over the lease period of 19.5 years.

18 ASSET CLASSIFIED AS HELD FOR SALE

On 10 March 2014 the Group signed the sale agreement with a third party for transfer of ownership and control of Motherwell, a United Kingdom (U.K.) based subsidiary acquired in June 2008. During October 2013, the Group classified Motherwell as held for sale and decided to sell its 79.67% equity stake. No gain or loss arose on this sale.

The group classified, Mena Telecom WLL ("Mena"), a wholly owned subsidiary, as held for sale in 2013. At 31 December 2013 the Group opted to extend the period of classification of Mena as held for sale beyond 12 months due to ongoing discussion with potential buyers. Due to the market conditions during the year, the management decided not to pursue the plan to sell Mena. Accordingly, Mena has been consolidated on line by line basis in the current year.

The 2013 comparative information in the consolidated statement of income has been represented as a result of change in plans to dispose of the subsidiary. Such representation did not affect previously reported net income or shareholders equity.

19 SUBSIDIARIES

19.1 Details of principal operating material subsidiaries

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2014	*2013*		
Kuwait Turkish Participation Bank	Turkey	**62**	62	Islamic banking services	31 December 2014
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	31 December 2014
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 2014
KFH Capital Investments Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Islamic finance and investments	30 September 2014
KFH Private Equity Ltd	Cayman Islands	**100**	100	Islamic investments	31 December 2014
KFH Financial Service Ltd.	Cayman Islands	**100**	100	Islamic real estate development and investments	31 December 2014
KFH Real Estate Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Real estate development and leasing	31 October 2014
Development Enterprises Holding Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Infrastructure and industrial investment	31 December 2014
Baitak Real Estate Investment Company S.S.C.	Saudi Arabia	**100**	100	Real estate development and investment	30 September 2014
KFH Investment Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Islamic finance and investments	30 September 2014
Saudi Kuwait Finance House S.S.C. (Closed)	Saudi Arabia	**100**	100	Islamic investment	31 December 2014
Gulf International Automobile Trading Company K.S.C. (Closed)*	Kuwait	**99.6**	99.6	Trading, import and export of used cars	30 September 2014
E'amar	Cayman Islands	**100**	100	Islamic investments	30 September 2014
International Turnkey Systems Company K.S.C. (Closed)	Kuwait	**97**	97	Computer maintenance, consultancy and software services	30 September 2014
Muthana GCC Islamic Banks Fund	Kuwait	**87**	87	Islamic equity investments	30 September 2014
Public Service Company K.S.C. (Closed)	Kuwait	**80**	80	Management consultancy and services	30 September 2014
Al Salam Hospital Co. K.S.C.(Closed)	Kuwait	**55**	55	Healthcare services	30 September 2014
Al Enma'a Real Estate Company K.S.C.P.	Kuwait	**56**	50	Real estate, investment, trading and real estate management	31 October 2014
Muthana Islamic Index Fund	Kuwait	**55**	55	Islamic equity investments	30 September 2014
Aref Investment Group K.S.C.(Closed)	Kuwait	**53**	52	Islamic investments	30 September 2014
ALAFCO – Aviation Lease and Finance Company K.S.C.P.	Kuwait	**53**	53	Aircraft leasing and financing services	30 September 2014
Turkapital Holding B.S.C.(C)	Bahrain	**51**	51	Real estate, auto leasing and insurance	30 September 2014

* Effective ownership percentage is 100% (2013:100%)

19 SUBSIDIARIES (continued)

19.2 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*	
		2014	*2013*
Kuwait Turkish Participation Bank (KTPB)	Turkey	**38%**	38%
Aviation Lease and Finance Company K.S.C.P. (ALAFCO)	Kuwait	**47%**	47%
Aref Investment Group K.S.C. (Closed) (AIG)	Kuwait	**47%**	48%
Al Enma'a Real Estate Company K.S.C.P. (ERESCO)	Kuwait	**44%**	50%

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 2014:

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

Summarised consolidated statement of income for 31 December 2013:

	KTPB	*ALAFCO*	*AIG*	*ERESCO*
				KD 000's
Revenues	268,696	60,683	46,508	7,753
Expenses	(213,486)	(40,038)	(48,514)	(4,825)
Profit (loss) for the year	55,210	20,645	(2,006)	2,928
Attributable to non-controlling interests	19,403	9,705	932	(959)

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

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

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

	KTPB	*ALAFCO*	*AIG*	*ERESCO*
				KD 000's
Total assets	3,521,156	669,796	501,133	99,004
Total liabilities	(3,147,329)	(488,790)	(403,715)	(41,107)
Total equity	373,827	181,006	97,418	57,897
Attributable to non-controlling interests	159,715	85,019	37,517	21,938

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

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

Summarised consolidated statement of cash flows for year ending 31 December 2013:

	KTPB	*ALAFCO*	*AIG*	*ERESCO*
				KD 000's
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)

20 DUE TO BANKS AND FINANCIAL INSTITUTIONS

		KD 000's
	2014	*2013*
Current accounts	**3,806**	2,015
Murabaha payable	**2,871,350**	1,984,873
Sukook payable	**225,634**	82,822
Obligations under finance leases	**350,472**	398,816
	3,451,262	2,468,526

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

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
	2014		*2013*	
	Minimum payments	***Present value of payments***	*Minimum payments*	*Present value of payments*
Within one year	**39,197**	**30,949**	53,928	44,671
After one year but not more than 5 years	**209,486**	**186,792**	206,718	179,849
After 5 years	**139,355**	**132,731**	184,889	174,296
Total minimum lease payments	**388,038**	**350,472**	445,535	398,816
Less: amounts representing finance charges	**(37,566)**	**-**	(46,719)	-
Present value of minimum lease payments	**350,472**	**350,472**	398,816	398,816

21 DEPOSITORS' ACCOUNTS

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

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

2) Investment deposits: These have fixed maturity as specified in the term of the contract and are automatically renewable for the same periods unless notified to the contrary in writing by the depositor. Investment savings accounts are valid for an unlimited period.

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

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

22 OTHER LIABILITIES

	2014	*2013*
		KD 000's
Trade payables	**186,614**	185,251
Accrued expenses	**125,255**	102,786
Certified cheques	**69,671**	116,003
Due to customers for contract work	**38,191**	71,206
Maintenance and other reserve	**118,076**	57,262
Employees' end of service benefits	**58,748**	49,542
Letter of guarantee covered	**33,600**	36,687
Refundable deposits	**16,206**	15,705
Provision on non cash facilities (Note 9)	**30,588**	24,804
Other miscellaneous liabilities	**75,267**	89,494
	752,216	748,740

23 RESERVES

	Statutory reserve	*Voluntary reserve*	*Retained earnings*
As at 1 January 2013 (as *previously reported)*	271,578	286,973	-
Effect of restatement (Note 40)	-	-	-
Balance at 1 January 2013 *(Restated)*	271,578	286,973	-
Profit for the year	-	-	115,893
Other comprehensive income	-	-	-
Total comprehensive income (loss)	-	-	115,893
Zakat paid	-	(4,115)	-
Transfer to statutory reserve	12,006	-	(12,006)
Transfer to voluntary reserve	-	5,084	(5,084)
Proposed issue of bonus shares (Note 25)	-	-	(49,835)
Proposed cash dividends (Note 25)	-	-	(48,968)
Profit on sale of treasury shares	-	-	-
Balance at 31 December 2013 *(Restated)*	283,584	287,942	-

	Statutory reserve	*Voluntary reserve*	*Retained earnings*
As at 1 January 2014 (as *previously reported)*	**283,584**	**287,942**	-
Effect of restatement (Note 40)	-	-	-
Balance at 1 January 2014 *(Restated)*	**283,584**	**287,942**	-
Profit for the year	-	-	**126,476**
Other comprehensive income	-	-	-
Total comprehensive income	-	-	**126,476**
Zakat paid	-	**(6,020)**	-
Transfer to retained earnings (Note 23)	**(45,332)**	**(43,670)**	**89,002**
Proposed issue of bonus shares (Note 25)	-	-	**(43,319)**
Proposed cash dividends (Note 25)	-	-	**(63,935)**
Profit on sale of treasury shares	-	-	-
Balance at 31 December 2014	**238,252**	**238,252**	**108,224**

In the ordinary and extraordinary general assembly meeting of the shareholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers 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 shareholders of the Bank to statutory and voluntary reserves, as appropriate, if proposed by the board of directors of the Bank.

KD 000's

Employees' share options reserve	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
4,246	6,676	-	-	-	569,473
-	-	3,797	(25,626)	(8,920)	(30,749)
4,246	6,676	3,797	(25,626)	(8,920)	538,724
-	-	-	-	-	115,893
-	-	(4,157)	(30,816)	-	(34,973)
-	-	(4,157)	(30,816)	-	80,920
-	-	-	-	-	(4,115)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(49,835)
-	-	-	-	-	(48,968)
-	49	-	-	-	49
4,246	6,725	(360)	(56,442)	(8,920)	516,775

KD 000's

Employees' share options reserve	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
4,246	6,725	-	-	-	582,497
-	-	(360)	(56,442)	(8,920)	(65,722)
4,246	6,725	(360)	(56,442)	(8,920)	516,775
-	-	-	-	-	126,476
-	-	4,853	2,132	-	6,985
-	-	4,853	2,132	-	133,461
-	-	-	-	-	(6,020)
-	-	-	-	-	-
-	-	-	-	-	(43,319)
-	-	-	-	-	(63,935)
-	353	-	-	-	353
4,246	7,078	4,493	(54,310)	(8,920)	537,315

23 RESERVES (continued)

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.

On 14 January 2015, the Board of Directors of the Bank proposed to restrict the balance of statutory reserve and voluntary reserve up to 50% of the paid-up share capital and transfer amounts in excess of 50% of the paid-up capital from statutory reserve and voluntary reserve to retained earnings. As a result, amounts of KD 45,332 thousand and KD 43,670 thousand has been transferred from statutory reserve and voluntary reserve respectively to retained earnings after taking into consideration proposed issuance of bonus shares for the year ended 31 December 2014. This proposal is subject to the approval of the ordinary general assembly of the shareholders of the Bank.

Voluntary reserve is available to be distributed to shareholders at the discretion of the general assembly in ways that may be deemed beneficial to the bank, except for the amount of KD 52,497 thousands which is equivalent to the cost of purchasing treasury shares, and is not available for distribution throughout the holding period of the treasury shares (Note 24).

The share premium balance is not available for distribution.

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

24 SHARE CAPITAL AND TREASURY SHARES

The ordinary general assembly of the shareholders of the Bank held on 23 March 2014 approved 13% bonus shares on outstanding shares amounting to KD 49,835 thousand for the year ended 31 December 2013 (Note 25).

Share capital

		KD 000's
	2014	*2013*
Authorized, issued and fully paid in cash:		
4,331,850,908 (2013: 3,833,496,379) shares of 100 fils each	**433,185**	383,350

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

	2014	*2013*
Number of shares in issue 1 January	**3,833,496,379**	2,904,163,924
Bonus issue	**498,354,529**	290,416,392
Right issue	**-**	638,916,063
Number of shares in issue 31 December	**4,331,850,908**	3,833,496,379

On 25 March 2014, the increase in share capital resulting from issuance of bonus shares for the year ended 31 December 2013 was approved and registered by the Ministry of Commerce in the commercial register.

Treasury shares and treasury share reserve.

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

	2014	*2013*
Number of treasury shares	**69,541,487**	66,745,262
Treasury shares as a percentage of total shares in issue	**1.61%**	1.74%
Cost of treasury shares (KD)	**52,497,075**	56,118,057
Market value of treasury shares (KD)	**49,374,456**	52,728,757

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

An amount of KD 52,497 thousands equivalent to the cost of purchase of the treasury shares have been earmarked as non-distributable from voluntary reserve throughout the holding period of treasury shares.

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

25 PROPOSED DIVIDENDS, BONUS SHARES, AND DIRECTORS' FEES

The Board of Directors of the Bank has proposed a cash dividend of 15% for the year ended 31 December 2014 (2013: 13%) and issuance of bonus shares of 10% (2013: 13%) of paid up share capital as follows:

				KD 000's
	2014		*2013*	
		Total		*Total*
Proposed cash dividends (per share)	**15 fils**	**63,935**	13 fils	48,968
Proposed issuance of bonus shares (per 100 shares)	**10 shares**	**43,319**	13 shares	49,835

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

The Board of Directors of the Bank has proposed Directors' fees of KD 610 thousand (2013: KD 580 thousand), (Note 28) are within the amount permissible under local regulations and are subject to approval by the annual general assembly of the shareholders of the Bank.

On 9 January 2014, the Board of Directors of the Bank had proposed Directors' fees of KD 580 thousand for the year ended 31 December 2013, which was subject to approval by the annual general assembly of the shareholders of the Bank. Subsequently in the ordinary general assembly meeting of the shareholders of the Bank held on 23 March 2014, the shareholders approved Directors' fees of KD 580 thousand for the year ended 31 December 2013.

26 CONTINGENCIES AND CAPITAL COMMITMENTS

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

		KD 000's
	2014	*2013*
Acceptances and letters of credit	**168,358**	239,822
Letter of Guarantees	**1,316,912**	1,403,771
Contingent liabilities	**1,485,270**	1,643,593

		KD 000's
	2014	*2013*
Associates	**2,500**	2,500
Purchase of aircrafts and engines	**1,620,271**	1,413,650
Other commitments	**358,821**	331,788
Capital commitments	**1,981,592**	1,747,938

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

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

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

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

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

KD 000's

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

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						
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

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 2014				
Cash inflows	**749,462**	**513,634**	**99,912**	**135,916**
Cash outflows	**(600,574)**	**(511,358)**	**(54,611)**	**(34,605)**
Net cash flows	**148,888**	**2,276**	**45,301**	**101,311**
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

28 RELATED PARTY TRANSACTIONS

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

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

						KD 000's
						Total
	Major share-holders	*Associates & Joint ventures*	*Board Members and Executive Officers*	*Other related party*	***2014***	*2013*
Financing income	**-**	**3,914**	**572**	**1,131**	**5,617**	7,978
Investment income	**-**	**-**	**-**	**150**	**150**	26,448
Fee and commission income	**-**	**1,097**	**2**	**162**	**1,261**	933
Finance costs	**18,198**	**50**	**-**	**803**	**19,051**	8,476

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

						KD 000's
						Total
	Major share-holders	*Associates & Joint ventures*	*Board Members and Executive Officers*	*Other related party*	***2014***	*2013*
Financing receivables	**-**	**103,062**	**11,197**	**7,434**	**121,693**	173,934
Due to banks & financial institutions	**1,222,374**	**11,712**	**-**	**5,633**	**1,239,719**	1,068,761
Depositors' accounts	**-**	**35,495**	**13,286**	**21,642**	**70,423**	72,084
Contingencies & capital commitments	**936**	**7,967**	**18**	**27,347**	**36,268**	21,439
Investment managed by related party	**-**	**-**	**-**	**33,453**	**33,453**	45,522

28 RELATED PARTY TRANSACTIONS (continued)

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

	The number of Board Members or Executive Officers		*The number of related parties*		*KD 000's*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*
Board Members						
Finance facilities	**31**	22	**7**	2	**41,539**	8,372
Credit cards	**8**	8	**2**	3	**17**	14
Deposits	**68**	49	**22**	44	**12,218**	7,247
Collateral against financing facilities	**10**	9	**-**	-	**16,885**	17,744
Executive officers						
Finance facilities	**35**	24	**3**	5	**4,168**	4,026
Credit cards	**15**	10	**-**	1	**59**	32
Deposits	**63**	48	**25**	41	**3,224**	2,799
Collateral against financing facilities	**17**	16	**2**	3	**11,444**	7,512

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

	KD 000's *Total*	
	2014	*2013*
Board Members		
Finance income	**426**	449
Executive officers		
Finance income	**312**	1,244
	738	1,693

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

	KD 000's *Total*	
	2014	*2013*
Salaries, allowances and bonuses of key management personnel	**16,821**	15,885
Termination benefits of key management personnel	**1,427**	1,877
Remuneration of chairman and board members*	**2,511**	1,508
Reversal of remuneration of chairman and board members for the year 2012	**-**	(385)
	20,759	18,885

** 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.

29 SEGMENTAL ANALYSIS

Primary segment information

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

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

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

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

KD 000's

31 December 2014	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	**6,904,979**	**2,405,325**	**6,382,300**	**1,489,307**	**17,181,911**
Total liabilities	**3,985,643**	**123,200**	**10,359,415**	**616,612**	**15,084,870**
Operating Income	**47,837**	**160,893**	**425,212**	**118,338**	**752,280**
Provisions and impairment	**(462)**	**(94,953)**	**(69,557)**	**(13,277)**	**(178,249)**
Profit for the year	**42,844**	**8,388**	**129,249**	**(20,406)**	**160,075**

KD 000's

31 December 2013	*Treasury*	*Investment*	*Banking*	*Other*	*Total*
Total assets	3,698,052	4,095,184	6,708,796	786,028	15,288,060
Total liabilities	2,588,234	93,716	10,122,217	530,672	13,334,839
Operating Income	64,630	149,491	449,733	95,678	759,532
Provisions and impairment	(496)	(36,201)	(174,618)	(20,234)	(231,549)
Profit for the year	36,800	79,354	89,046	(56,134)	149,066

Secondary segment information

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

KD 000's

	Assets		*Contingencies & capital commitments*	
	2014	*2013*	***2014***	*2013*
Geographical areas:				
The Middle East	**10,609,964**	10,048,209	**496,532**	531,599
North America	**382,090**	430,589	**233,372**	206,602
Europe	**4,157,010**	3,370,634	**2,676,074**	2,586,184
Other	**2,032,847**	1,438,628	**60,884**	67,146
	17,181,911	15,288,060	**3,466,862**	3,391,531

KD 000's

	Local		*International*		*Total*	
	2014	*2013*	***2014***	*2013*	***2014***	*2013*
Operating income	**288,230**	433,414	**464,050**	326,118	**752,280**	759,532
Profit for the year	**36,825**	107,059	**123,250**	42,007	**160,075**	149,066

30 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	
	2014	*2013*
Trading and manufacturing	**3,708,510**	3,421,425
Banks and financial institutions	**5,702,897**	4,500,410
Construction and real estate	**4,126,942**	4,399,000
Other	**3,643,562**	2,967,225
	17,181,911	15,288,060

(b) The distribution of liabilities was as follows:

	KD 000's	
	2014	*2013*
Geographic region		
The Middle East	**10,740,934**	9,891,280
North America	**64,512**	182,600
Europe	**3,357,652**	2,622,827
Other	**921,772**	638,132
	15,084,870	13,334,839

31 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.

a) Risk management structure

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

Board of Directors

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

Risk management committee

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

Risk management unit

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

Credit Committee

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

Assets and Liabilities Committee

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

Treasury

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

b) Risk management and reporting systems

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

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

Risk mitigation

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

Excessive risk concentration

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

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

32 CREDIT RISK

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

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

32 CREDIT RISK (continued)

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	***2014***	*2013*
Balances with banks and financial institutions		**1,427,773**	923,400
Short-term murabaha	8	**3,222,420**	2,423,501
Financing receivables	9	**8,118,921**	7,595,290
Financial assets available for sale – Sukook	10	**857,311**	686,857
Trade and other receivables		**287,988**	250,593
Total		**13,914,413**	11,879,641
Contingent liabilities	26	**1,485,270**	1,643,593
Commitments	26	**1,981,592**	1,747,938
Total		**3,466,862**	3,391,531
Total credit risk exposure		**17,381,275**	15,271,172

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 2014 was KD 126,659 thousands (2013: KD 137,369 thousands) before taking account of any collaterals.

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

		KD 000' s
	2014	*2013*
The Middle East	**8,602,685**	7,826,200
North America	**68,677**	45,986
Europe	**4,015,574**	2,975,483
Other	**1,227,477**	1,031,972
	13,914,413	11,879,641

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

		KD 000's
	2014	*2013*
Trading and manufacturing	**3,773,403**	3,093,861
Banks and financial institutions	**5,196,480**	4,013,229
Construction and real estate	**2,901,457**	2,961,017
Other	**2,043,073**	1,811,534
	13,914,413	11,879,641

Credit quality per class of financial assets

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

	Neither past due nor impaired			KD 000's
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2014				
Financing receivables (Note 9)	**1,363,532**	**5,686,217**	**1,069,172**	**8,118,921**
Financial assets available for sale – Sukook (Note10)	**443,918**	**412,555**	**838**	**857,311**
	1,807,450	**6,098,772**	**1,070,010**	**8,976,232**

	Neither past due nor impaired			KD 000's
	High grade	*Standard grade*	*Past due or impaired*	*Total*
31 December 2013				
Financing receivables (Note 9)	459,299	5,899,738	1,236,253	7,595,290
Financial assets available for sale – Sukook (Note10)	368,181	291,476	27,200	686,857
	827,480	6,191,214	1,263,453	8,282,147

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 2014				
Financing receivables	**213,720**	**97,636**	**116,781**	**428,137**
31 December 2013				
Financing receivables	380,997	115,378	151,521	647,896

The value of rescheduled facilities during 2014 amounted to KD 409,654 thousand (2013: KD 406,926 thousand).

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

32 CREDIT RISK (continued)

Collateral (continued)

The fair value of collateral that the Group holds relating to finance facilities individually determined to be impaired at 31 December 2014 amounts to KD 151,074 thousand (2013: KD 233,930 thousand).

The fair value of collateral that the Group holds relating to finance facilities past due but not impaired as at 31 December 2014 was KD 181,106 thousand (2013: KD 123,343 thousand). The collateral consists of cash, securities, sukook, letters of guarantee and real estate assets.

33 LIQUIDITY RISK

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

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

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

The 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 2014 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	1,570,613	323	3,427	29,772	1,604,135
Short-term murabaha	3,222,420	-	-	-	3,222,420
Financing receivables	3,026,609	1,345,455	1,385,403	2,361,454	8,118,921
Trading properties	2,355	119,044	9,504	48,362	179,265
Investments	374,926	(3,065)	43,885	953,738	1,369,484
Investments in associates & joint ventures	-	-	-	462,710	462,710
Investment properties	-	-	-	529,285	529,285
Other assets	207,835	2,984	58,090	370,546	639,455
Intangible assets and goodwill	-	-	-	61,793	61,793
Property and equipment	-	-	-	877,362	877,362
Leasehold rights	-	-	-	117,081	117,081
	8,404,758	1,464,741	1,500,309	5,812,103	17,181,911
Liabilities					
Due to banks and financial institutions	1,614,298	516,497	538,181	782,286	3,451,262
Depositors' accounts	6,985,853	208,594	239,829	3,447,116	10,881,392
Other liabilities	89,811	35,902	124,425	502,078	752,216
	8,689,962	760,993	902,435	4,731,480	15,084,870

The maturity profile of assets and undiscounted liabilities at 31 December 2013 is as follows:

	Within 3 months	*3 to 6 months*	*6 to 12 months*	*After one year*	***Total***
					KD 000's
Assets					
Cash and balances with banks and financial institutions	1,070,486	-	-	-	1,070,486
Short-term murabaha	2,423,501	-	-	-	2,423,501
Financing receivables	1,136,246	1,452,730	2,016,046	2,990,268	7,595,290
Trading properties	7,263	215,667	3,499	62,499	288,928
Investments	22,666	50,508	3,337	1,266,799	1,343,310
Investments in associates & joint ventures	-	-	-	490,107	490,107
Investment properties	-	-	-	524,342	524,342
Other assets	152,072	104,733	35,318	187,793	479,916
Intangible assets and goodwill	242	158	15,405	52,109	67,914
Property and equipment	-	-	-	812,593	812,593
Leasehold rights	-	-	-	125,320	125,320
Assets classified as held for sale	-	-	66,353	-	66,353
	4,812,476	1,823,796	2,139,958	6,511,830	15,288,060
Liabilities					
Due to banks and financial institutions	1,117,522	506,898	302,427	541,679	2,468,526
Depositors' accounts	6,617,946	455,812	193,474	2,836,754	10,103,986
Other liabilities	141,828	28,457	39,981	538,474	748,740
Liabilities directly associated with assets classified as held for sale	-	-	13,587	-	13,587
	7,877,296	991,167	549,469	3,916,907	13,334,839

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

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
						KD 000's
2014						
Contingent liabilities (Note 26)	**438,094**	**576,492**	**234,238**	**208,887**	**27,559**	**1,485,270**
Capital commitments (Note 26)	**352,763**	**684**	**3,113**	**957,657**	**667,375**	**1,981,592**
Total	**790,857**	**577,176**	**237,351**	**1,166,544**	**694,934**	**3,466,862**

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
						KD 000's
2013						
Contingent liabilities (Note 26)	461,255	481,348	331,842	293,409	75,739	1,643,593
Capital commitments (Note 26)	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

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

34 MARKET RISK

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

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

Non-trading market risk

Interest rate risk

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

Currency risk

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

Currency risk is managed on the basis of limits determined by the Bank's Board of Directors and a continuous assessment of the Group open positions, and current and expected exchange rate movements. The Group, 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 2014 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

	2014			2013		
Currency	Change in currency rate %	Effect on profit	Effect on fair value reserve	Change in currency rate %	Effect on profit	Effect on fair value reserve
U.S. Dollars	+1	3,146	7,829	+1	2,732	6,784
Sterling Pounds	+1	200	144	+1	113	46

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

	2014		2013	
	Change in equity price %	Effect on fair value reserve	Change in equity price %	Effect on fair value reserve
Market indices				
Kuwait Stock Exchange	+1	2,537	+1	2,394
Other GCC indices	+1	938	+1	1,037

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.

35 CAPITAL MANAGEMENT

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

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

The Group's regulatory capital and capital adequacy ratios for the year ended 31 December 2014 are calculated in accordance with CBK circular number 2/RB, RBA/336/2014 dated 24 June 2014 (Basel III) are shown below:

Capital adequacy	*KD 000's* *2014*
Risk Weighted Assets	**12,070,441**
Capital required	**1,569,157**
Capital available	
Tier 1 capital	**1,785,838**
Tier 2 capital	**175,829**
Total capital	**1,961,667**
Tier 1 capital adequacy ratio	**14.80%**
Total capital adequacy ratio	**16.25%**

For the year ended 31 December 2013, the Group followed Basel II regulations and the Group's regulatory capital and capital adequacy ratios are calculated in accordance with CBK circular number 2/RBA/44/2009 dated 15 June 2009 are shown below.

Capital adequacy	*KD 000's* *2013*
Risk Weighted Assets	11,243,127
Capital required	1,349,176
Capital available	
Tier 1 capital	1,937,094
Tier 2 capital	23,852
Total capital	1,960,946
Tier 1 capital adequacy ratio	17.23%
Total capital adequacy ratio	17.44%

35 CAPITAL MANAGEMENT (continued)

The Group's financial leverage ratio for the year ended 31 December 2014 is calculated in accordance with CBK circular number 2/BS/ 342/2014 dated 21 October 2014 is shown below:

	KD 000's
	2014
Tier 1 capital	1,785,838
Total exposure	19,446,159
Financial leverage ratio	9.18%

The Group has disclosed the financial leverage ratio for the first time in consolidated financial information for the year ended 31 December 2014.

36 MANAGEMENT OF PURCHASED DEBTS

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

37 FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group uses primary financial instruments such as cash and balances with or due to Banks and other financial institutions, investments, receivables and payables. The Group also uses currency swaps, profit rate swaps, forward foreign exchange and forward commodity contracts for hedging purposes. Information about fair values of financial assets and liabilities are disclosed in note 39 of the consolidated financial statements.

38 FIDUCIARY ASSETS

The aggregate value of assets held in a trust or fiduciary capacity by the Group at 31 December 2014 amounted to KD 579,880 thousand (2013: KD 623,219 thousand).

Fees and commission income include fees of KD 10,799 thousand (2013: KD 2,142 thousand) arising from trust and fiduciary activities.

39 FAIR VALUES

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

Level 1: quoted (unadjusted) prices in active markets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

				KD 000's
Financial assets measured at fair value:	***(Level 1)***	***(Level 2)***	***(Level 3)***	***Total***
Venture capital at fair value through statement of income (Note 10)	**-**	**133,974**	**-**	**133,974**
Financial assets available for sale (Note 10)	**780,293**	**107,788**	**117,176**	**1,005,257**
Derivative financial assets:				
Forward contracts	**2,742**	**-**	**-**	**2,742**
Profit rate swaps	**-**	**939**	**-**	**939**
Currency swaps	**2,735**	**-**	**-**	**2,735**
Non-financial assets				
Investment properties	**-**	**667,971**	**-**	**667,971**
	785,770	**910,672**	**117,176**	**1,813,618**

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2013.

				KD 000's
Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Venture capital at fair value through statement of Income (Note 10)	-	127,487	-	127,487
Financial assets available for sale (Note 10)	656,810	99,510	102,064	858,384
Derivative financial assets:				
Forward contracts	13,622	-	-	13,622
Profit rate swaps	-	1,295	-	1,295
Currency swaps	713	-	-	713
Non-financial assets				
Investment properties	-	697,624	-	697,624
	671,145	925,916	102,064	1,699,125

39 FAIR VALUES (continued)

				KD 000's
Liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*Total*
Derivative financial liabilities:				
Forward contracts	4,320	-	-	4,320
Profit rate swaps	-	13	-	13
Currency swaps	3,520	164	-	3,684
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 27 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).

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

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

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	Market multiples	Discount for lack of marketability	(9% - 11%) 10%	The Group adjusted the price earnings ratio by increasing and decreasing the price earnings 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 121 thousands.
	DCF method	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 45 thousands
	Market multiples	Price to book multiple "Represents amounts used when the Group has determined that market participants would use such multiples when pricing the investments"	(0.06% - 2.34%) 1.2%	An increase (decrease) by 1% in the price to book multiple would result in increase (decrease) in fair value by KD 303 thousands.
Sukook	DCF method	Effective profit rate	(6.3% - 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 3,634 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 financial assets available for sale in unquoted equity shares:

	KD 000's	
	2014	*2013*
As at 1 January	**102,064**	139,056
Re-measurement recognised in other comprehensive income	**17,729**	(33,905)
Purchases	**1,608**	-
Sales	**(4,225)**	(3,087)
As at 31 December	**117,176**	102,064

40 COMPARATIVE INFORMATION

During the year ended 31 December 2014, management of the Bank presented fair value reserve and foreign currency translation reserve as separate components within the consolidated statement of changes in equity, instead of reporting them separately between liabilities and equity. This also led to a change in the presentation of the consolidated statement of comprehensive income as it now begins with the "profit of the year", instead of "profit before distribution to depositors". These changes did not affect previously reported figures in the consolidated statement of income.

Accordingly, the comparative information in the consolidated statement of comprehensive income, consolidated statement of financial position, and consolidated statement of changes in equity for the previous year ended 31 December 2013 have been restated to conform with the current presentation.

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 Good 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 good 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 rules taking into account the lessons learnt from the 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 of the World Bank report issued in late 2010 concerning assessment of corporate governance principles 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 Management

Pillar 4: Risk Management & Internal Controls

Pillar 5: Remuneration Policies and Procedures

Pillar 6: Disclosure and Transparency

Pillar 7: Complex Corporate Structure

Pillar 8: Protection of Shareholders' Rights

Pillar 9: Protection of Stakeholders' Rights

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 the Bank.

Pillar 1: Board of Directors

The Board's Overall Responsibility

The Board has overall responsibility for the Bank, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board is also responsible for providing oversight of the Bank's senior management including the CEO.

The Board assumes ultimate responsibility for the Bank's business and its financial soundness, fulfillment of Central bank of Kuwait requirements, protecting the legitimate interests of shareholders, depositors, creditors, staff and stakeholders and ensuring that the bank is managed in a prudent manner and within the 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 technical competency and banking experience for the Bank. 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 the Bank's executive management in order to ensure they carry out their assigned roles in line with the Bank's objectives and targets and the policies approved by the Board.

Separation of 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 they should not be first grade relatives to, or have any relationship with, the other in a way that may affect independency of decisions taken by each position.

Succession Plans

The Board ensures that HR has succession plans in place for the executive positions in the Bank and that such plans are effectively implemented within the Bank.

Board Composition

The Bank should have an adequate number and appropriate composition of Board members to enable the Bank to form the necessary number of Board standing Committees in conformity with the sound governance standards of the CBK.

Role of the Board Chairman

The Chairman plays an important role to ensure the proper functioning of the Board and to maintain a relationship of trust with the Board members. He/she 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 reaches all the Board members and shareholders on a timely basis.

The Chairman establishes a constructive relationship between the Board and the senior management of the Bank and ensures that the Bank has sound corporate governance standards in place.

Organization and Functioning of the Board

The Board meets as often as it deems fit but at least 6 times a year with at least 1 meeting in every quarter. The minutes of the meetings shall be mandatory and constitute part of the Bank's records.

The Chairman, in consultation with the CEO, proposes the important and comprehensive topics to be included in the agenda of each Board meeting and ensures that the Board members are provided with sufficient information enough time 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 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 Chairperson in running 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 meetings.
- Carrying out any instructions of the Board.
- Ensuring compliance with all statutory requirements in relation to Board affairs.

Rights of the Board Members

- To receive all available information to be discussed at a meeting, prior to that meeting.
- To be given adequate time to consider and debate issues.
- Have access to relevant and reliable information and be entitled to obtain such resources and information from the Bank, including direct access to employees, as they may require.
- Any Director or Committee of the Board may, with the prior approval of the Chairman of the Board, seek their own independent legal or other professional advice at the Bank's expense to assist them in the proper performance of their duties to the Bank and the shareholders.

Delegation of Authority

The Board has delegated the task of running the day to day operations of the Bank to the Bank's senior management headed by the CEO through written/approved delegated financial and operational authorities.

The Bank has clearly set out all banking transactions that cannot be delegated to the Bank's management or the CEO and require the Board's approval.

Qualifications of Board Members

KFH should have qualified and experienced members on the Board as well as the various Board Committees in order to serve the interests of the Bank and its 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. These are aimed at creating a Board capable of challenging, stretching and motivating management to achieve sustained, outstanding performance in all respects.

Board members should be and remain qualified, including through training, for their positions. 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 the Bank.

Ongoing Training & Development

The Board members, through regular trainings and participation in conferences and seminars, should develop their skills and experience in finance and banking business in line with the most recent future visions of the risks the Bank encounters in a dynamically developing environment.

Effectiveness

The Board is to review and assess, at least 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 through the Code of Conduct and Ethics defines appropriate governance practices for its own work and has in place the means to ensure that such practices are followed and periodically reviewed for ongoing improvement. The Board takes the lead in establishing the "tone at the top" and in setting professional standards and corporate values that promotes integrity for itself, senior management and other employees in a way that prevents the use of internal information of KFH for private interests and the establishment of proper mechanism for handling the customers' claims.

The Code of Conduct and Ethics has been circulated to all Bank staff and Board members, whose signatures are obtained as an acknowledgment to abide by contents therein. The Bank should publish the Code on its website.

Conflicts of Interest

The Board should have a formal written Conflicts of Interest Policy covering all conflicts of interest-related matters and possibilities thereof including, but not limited to:

- A member's duty to avoid to the extent possible activities that could create conflicts of interest;
- Procedures to safeguard against the exercise of undue influence on a KFH Board member or employee;
- 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
- Adequate 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 the policy.

Related Parties

The Bank should have a written policy for Related Party Transactions which includes the rules and procedures regulating operations with related parties. The Bank keeps records of all related party transactions and keeps them under appropriate audit.

The Bank 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 authorities including the CBK.

Banking Confidentiality

The Bank gives the highest priority to confidentiality as a cornerstone of its business and in its dealings with its customers, whether depositors, borrowers, investors or otherwise, as well as its other stakeholders.

The Bank's various policies on keeping the confidentiality of banking business, stipulate the following as a minimum:

- The necessity that Board members and the Bank's staff keep the confidentiality of information and data of the Bank and its clients, and the information and data of the clients of other banks, which may be known to the employees due to their work nature.
- Non-disclosure of any information or data of the Bank or its clients unless by the authorized persons, and to the extent allowed by the Bank's internal rules, regulations and policies.
- Maintaining the security of the information of the Bank and its clients and setting the regulatory controls to prevent access to the same by anyone save the authorized persons. The Bank's Disclosure Policy sets the control systems to restrict access to information and data only to the authorized persons, and prevents leakage of any banking information in breach of banking confidentiality.
- The necessity of the Board and senior management's recognition of their responsibility for developing security awareness in the Bank in a way that enhances and keeps banking confidentiality.
- The importance of not using any information about the Bank's condition which may be available with a Board member or any of the Bank's staff for serving personal interests or the interests of other related parties.

The Bank'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 in line with the growth, complexity and geographic expansion and finds the appropriate ways to ensure that every affiliate complies with all the applicable governance requirements.

Board Committees

The Board, without abdicating its own responsibility, has formed the following standing Committees to increase the efficiency of their control over the Bank'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 & Compliance Committee
2. Risk Committee
3. Nomination & Remuneration Committee
4. Governance Committee
5. Executive Committee

The Chairperson of the Board may not be a member of the Audit & Compliance, the Risk, 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:

- Membership and qualifications for membership
- Frequency of meetings
- Committee authorities
- Submission of reports 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 the Bank's interests.
- Conducting an annual assessment of the Board overall performance and performance of each 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 summaries about certain critical issues to the Bank 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.
- Over seeing the policy and procedure of the Remuneration committee, that is detailed in Section 5.

Pillar 3: Senior Executive Management

Senior management consists of 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 the Bank.

Under the direction of the Board, the senior executive management ensures that the Bank'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.

Senior executive management should contribute substantially to a Bank's sound corporate governance through personal conduct and by providing adequate oversight of those they manage. They are responsible for delegating duties to the staff and its monitoring thereof and establishing a management structure that promotes accountability and transparency.

Senior executive management is responsible for supervision and control over the Bank's business, particularly with respect to ensuring compliance, risk control, independence of functions and segregation of duties. They should provide the Board with periodic transparent and objective financial and administrative reports at least twice per months.

Chief Executive Officer

The Chief Executive Officer (CEO) is responsible to the Board for the overall management and performance of the Bank.

The CEO manages the Bank in accordance with the strategy, plans and policies as approved by the Board.

The CEO is responsible for:

- Delivering on the Bank's strategic and operational plans as approved by the Board
- Referring transactions outside of his/her delegated authority to the Board
- Ensuring that all actions comply with the Bank's policies and with the law
- All actions delegated to him/her 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 a Director, will not be entitled to a Director's fee in addition to the remuneration applicable to the position of CEO.

Pillar 4: Risk Management & Internal Controls

Internal Controls System

The Bank has established efficient and effective internal controls systems and risk management processes.

The Board should approve 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 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.

The Bank conducts an annual Internal Controls Review (ICR) through certified independent auditors other than the Bank's external auditors to ensure the adequacy of the internal control systems.

The Bank's Whistleblower Policy has set procedures enabling employees to contact the Board Chairman to communicate their concerns regarding potential violations that may be carried out by any member of the Bank ("Whistleblower"). The Bank ensures that whistleblowers are 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 Committee (BRC) have established comprehensive policies on risk oversight and management. Such policies describe roles and responsibilities of the Board, the BRC, the Chief Risk Officer (CRO), the management and the Internal Audit function.

The CRO is responsible for the Bank's risk management function and has direct access to the Board Chairman and the Chairman of the BRC. The CRO has the authority to influence the Bank's decisions pertaining to exposure to risks. The CRO is appointed by the Board and cannot be fired or removed from his/her 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. 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 way.

Risk Committee

The Board Risk Committee (BRC) is formed from three Board non-executive members including the Committee Chairperson. This Committee is responsible for:

- Advising to the Board on the Bank's present and future risk strategy and appetite and monitoring senior management implementation of this strategy.
- Ensuring proper setup of Bank-wide risk management framework including risk strategies, appetite, policies & procedures, and tools and methodologies.

The BRC 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 lay down risk management structure, role, responsibilities and methods of development, provided that the structure and role are reviewed by the BRC prior to the Board's approval.

The CRO presents reports directly to the Chairman of the BRC.

Internal Audit

The Bank 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 at the Bank 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 by the Board and reports to the Audit & Compliance Committee. The Head of Internal Audit reports to the Audit & Compliance Committee.

The scope and particulars of a system of effective organizational and procedural controls 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:

1. Verifying the sufficiency and effectiveness of internal control systems and ensure that the internal control systems pertinent to financial and administrative issues are comprehensive and are being reviewed on timely manner.
2. Verifying that the Bank's internal policies are in full conformity with the relevant laws, policies, regulations and instructions.
3. Examining particular business activities relating to the Bank's financial position, internal control systems, risk management and others.

The Bank shall not outsource any of the basic audit roles. In the event where the Bank 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 the Bank, an external auditor shall be selected and appointed by the shareholders upon recommendation of the Audit & Compliance Committee and the Board.

The Audit & Compliance 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 & Compliance Committee with a copy of the audit reports and will meet with the Audit & Compliance Committee to discuss these reports and any other significant observations on the Bank's issues. The Audit & Compliance Committee shall meet with the external auditor in the absence of the executive management at least once a year.

The external audit office should abide by the instructions issued by the regulatory authorities (Central Bank of Kuwait – Capital Market Authority – Ministry of Commerce and Industry)

The external auditor of the Bank shall not at the same time provide all services of an internal auditor to the Bank. The Bank shall ensure that other non-audit work shall not be in conflict with the functions of the external auditor.

The audit firm's partner in charge of the Bank's audit shall be rotated every four (4) years or earlier.

Audit & Compliance Committee

The Audit & Compliance Committee is formed of the Board members, including at least three non-executive members, one of whom shall be the Chairperson of the Committee. At least two members of the Audit & Compliance 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 & Compliance Committee is responsible for reviewing the following:

- The Bank's internal and external audit scope, results and adequacy
- Accounting issues of a substantial impact on the Bank's financials
- The Bank's internal control systems, ensuring that the resources available are sufficient for the monitoring functions
- Reviewing the Bank's financials before presenting them to the Board to ensure that necessary provisions are sufficient
- Ensuring that the Bank complies with the relevant policies, rules and regulations and instructions

The Audit & Compliance Committee should be authorized to obtain any information from the CEO as well as the right to invite any senior or Board member to its meetings.

On annual basis, the Audit & Compliance Committee shall assess the performance of the Head of Internal Audit, the Head of Regulatory Compliance & Reporting, and the Head of AML, determine his remuneration and meet with the external and internal auditors at least once per year in the absence of the executive management.

The responsibility of the Audit & Compliance 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 the Bank's remuneration system's design and operation, and monitors and reviews the remuneration system to ensure that it is operating as intended. The Nominations and Remuneration Committee provides guidance to the Board in respect of all remuneration related matters.

The Bank'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 the Bank. The policy is designed to attract and retain highly qualified, skilled, and knowledgeable professionals.

The Bank'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.

The Bank has a formal performance management process for evaluating and measuring staff performance at all levels objectively. The variable remuneration is linked with performance. The Bank's philosophy for senior management remuneration is to reward high levels of sustained performance.

The Bank shall disclose, in its Annual Report, the most significant aspects of its remuneration policies and systems.

Remuneration responsibilities of the Nomination & Remuneration Committee

It is formed of the Board and consists of at least three non-executive members including the Committee Chairperson. The key remuneration functions of the NRC include but are not limited to:

- Draft the remuneration policy and submit the same for the Board's approval.
- Conduct regular revision of remuneration policy and make recommendations on any updates to the Board for approval.
- Carry out regular evaluation of the sufficiency and effectiveness of remuneration policy to ensure alignment with its objectives.
- Make recommendation to the Board regarding the level and components of the remuneration of the CEO and his/her direct reports as well as the Bank'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.
- While evaluating the incentives proposed by the remuneration system, the Committee shall work closely with the Bank's Risk Committee and/or the CRO.

Pillar 6: Disclosure and Transparency

Disclosure Policy

KFH understands that the disclosure system is an effective tool for influencing the Bank's behavior and protecting investors, as well as enhancing their confidence in the Bank. The Bank shall provide its shareholders and investors with accurate, comprehensive, detailed, sufficient, and timely essential information to be able to evaluate the Bank's performance, and make effective decisions.

The Bank is committed to:

- Ensuring that stakeholders have the opportunity to access externally available information issued by the Bank
- Providing full and timely information to the market about the Bank's activities
- Complying with the obligations under the CBK rules and regulations as well as the instructions of the Capital Market Authority

Information and data included in the Bank's annual or quarter reports, or presented in lectures given by the senior management shall be posted on the Bank's website, in both Arabic and English languages.

The Bank is committed to timely and accurate disclosure of all material issues affecting it, including but not limited to:

- Financial and operating results
- Objectives of the Bank
- Major share ownership
- Details of Directors, key executives and their remuneration
- Material foreseeable risks

- Material issues regarding employees, stakeholders, etc.

The Board has approved the Disclosure Policy including the policies and procedures to be followed by the Bank for the release of sensitive information to the market, shareholders and stakeholders and to ensure there are proper controls in place for timely and accurate disclosure of essential information related to the Bank 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.

The Bank 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 the Bank's investment in those products or systems and render those products or systems less valuable, and would undermine the Bank's competitive position will not be disclosed. The Bank 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: Complex Corporate Structure

Know Your Structure

The Board and senior management of the Bank shall be fully aware of the structure of the Bank'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. The Bank's Board of Directors and senior management ensure that the products and their relevant risks are assessed by each entity in the group, and on the level of the entire group's entities as a whole.

Incorporation of New Structures

The Bank's approved Investment Sector policies related to the incorporation of new structures ensure that:

- Unnecessary complex structures are avoided
- Central procedures in place for approving and monitoring the incorporation of new legal entities under specific criteria including ability to supervise and fulfill the requirement necessary for the continuity of each unit
- Information on the Bank's structure, including type, charter, ownership structure, and activity of each legal entity is readily available
- 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 the Bank's various stakeholders. The Kuwait Companies Law, the Law No. 32 of 1968 and the corporate governance instructions of the Central Bank of Kuwait (CBK) as well as the Bank's Articles and Memorandum of Association and internal policies, include the controls and basis for protecting shareholder 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

- Rights to review and participate in the decisions related to amending the Bank's Article and Memorandum of Association, as well as the decisions related to non-ordinary transactions which might affect the Bank's future or activity, like mergers, sale of a substantial portion of its assets, or winding up of subsidiaries

- Rights of participation in KFH General Assembly meetings, comments and recommendations (if any) on any improvements required
- Rights of contributing in the decision-making of any significant changes being made in the Bank
- Rights of expressing an opinion on the appointment of members of the Board of Directors
- Rights to have accurate, comprehensive, detailed, sufficient, and timely essential information in order to evaluate investments and make informed decisions
- Rights for receiving dividends and for participating and voting at the General Assembly meetings
- Rights for minority / foreign shareholders to be treated on equal basis and be given the opportunity to rectify any mistreatment in their rights

Responsibilities of Shareholders

- Shareholders are to ensure that the stewardship of the Directors is effective
- Shareholders should ensure they are informed on the Bank, take an interest in the composition of, and performance by the Board and its Committees, and should not involve themselves directly in the affairs of KFH.
- Shareholders should not seek access to sensitive Bank information 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 members, 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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