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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

Building a better
working world

Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74
18–21st Floor, Baitak Tower
Ahmed Al Jaber Street
Safat Square 13001, Kuwait

Tel: +965 2295 5000
Fax: +965 2245 6419
kuwait@kw.ey.com
ey.com/mena

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174 Safat 13062 or
P.O. Box 23049 Safat 13091 Kuwait
Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080
www.deloitte.com

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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 respects, 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.

EY
Building a better working world

Deloitte.
Deloitte & Touche
Al-Wazzan & Co.

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Bank and the consolidated financial statements, together with the contents of the report of the Bank's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Capital Adequacy Regulations 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, 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	BADER A. AL-WAZZAN
LICENCE NO. 68 A	LICENCE NO. 62A
EY	DELOITTE & TOUCHE
AL AIBAN, AL OSAIMI & PARTNERS	AL-WAZZAN & CO.

14 January 2015
Kuwait

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2014

	Notes	2014	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

KD 000's

	Attributable to shareholders of the Bank								Non-controlling interests	Total equity
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 23)	Subtotal	Proposed cash dividend	Subtotal		
As at 1 January 2013										
(as previously reported)	290,416	464,766	29,042	(54,028)	569,473	1,299,669	28,429	1,328,098	311,318	1,639,416
Effect of restatement (Note 40)	-	-	-	-	(30,749)	(30,749)	-	(30,749)	(31,918)	(62,667)
At 1 January 2013 (Restated)	290,416	464,766	29,042	(54,028)	538,724	1,268,920	28,429	1,297,349	279,400	1,576,749
Profit for the year	-	-	-	-	115,893	115,893	-	115,893	33,173	149,066
Other comprehensive loss	-	-	-	-	(34,973)	(34,973)	-	(34, 973)	(14,360)	(49,333)
Total comprehensive (loss) income	-	-	-	-	80,920	80,920	-	80,920	18,813	99,733
Issue of bonus shares (Note 24)	29,042	-	(29,042)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(4,115)	(4,115)	-	(4,115)	-	(4,115)
Issue of shares for cash (Note 24)	63,892	255,567	-	-	-	319,459	-	319,459	-	319,459
Cash dividends paid	-	-	-	-	-	-	(28,429)	(28,429)	-	(28,429)
Distribution of profit:										
Proposed issue of bonus shares (Note 24, 25)	-	-	49,835	-	(49,835)	-	-	-	-	-
Proposed cash dividends (Note 25)	-	-	-	-	(48,968)	(48,968)	48,968	-	-	-
Purchase of treasury shares	-	-	-	(23,059)	-	(23,059)	-	(23,059)	-	(23,059)
Disposal of treasury shares	-	-	-	20,969	49	21,018	-	21,018	-	21,018
Non-controlling interest arising on a business combination	-	-	-	-	-	-	-	-	6,419	6,419
Acquisition of non- controlling interests	-	-	-	-	-	-	-	-	(15,459)	(15,459)
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	(18,502)	(18,502)
Participation of non-controlling interest in capital increase	-	-	-	-	-	-	-	-	21,296	21,296
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(3,249)	(3,249)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	1,360	1,360
At 31 December 2013 (Restated)	383,350	720,333	49,835	(56,118)	516,775	1,614,175	48,968	1,663,143	290,078	1,953,221

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

Year ended 31 December 2014

KD 000's

	Attributable to shareholders of the Bank								*Non-controlling interests*	*Total equity*
	Share capital	*Share premium*	*Proposed issue of bonus shares*	*Treasury shares*	*Reserves (Note 23)*	*Subtotal*	*Proposed cash dividend*	*Subtotal*		
At 1 January 2014 *(as previously reported)*	383,350	720,333	49,835	(56,118)	582,497	1,679,897	48,968	1,728,865	336,356	2,065,221
Effect of restatement (Note 40)	-	-	-	-	(65,722)	(65,722)	-	(65,722)	(46,278)	(112,000)
At 1 January 2014 (Restated)	383,350	720,333	49,835	(56,118)	516,775	1,614,175	48,968	1,663,143	290,078	1,953,221
Profit for the year	-	-	-	-	126,476	126,476	-	126,476	33,599	160,075
Other comprehensive income (loss)	-	-	-	-	6,985	6,985	-	6,985	(10,978)	(3,993)
Total comprehensive income	-	-	-	-	133,461	133,461	-	133,461	22,621	156,082
Issue of bonus shares (Note 24)	49,835	-	(49,835)	-	-	-	-	-	-	-
Zakat paid	-	-	-	-	(6,020)	(6,020)	-	(6,020)	-	(6,020)
Cash dividends paid (Note 25)	-	-	-	-	-	-	(48,968)	(48,968)	-	(48,968)
Distribution of profit:										
Proposed issue of bonus shares (Note 25)	-	-	43,319	-	(43,319)	-	-	-	-	-
Proposed cash dividends	-	-	-	-	(63,935)	(63,935)	63,935	-	-	-
Disposal of treasury shares	-	-	-	3,621	353	3,974	-	3,974	-	3,974
Participation of non-controlling interest in capital increase	-	-	-	-	-	-	-	-	18,731	18,731
Dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	(3,430)	(3,430)
Net other change in non- controlling interests	-	-	-	-	-	-	-	-	23,451	23,451
At 31 December 2014	433,185	720,333	43,319	(52,497)	537,315	1,681,655	63,935	1,745,590	351,451	2,097,041

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

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.

2.2 CHANGES IN ACCOUNTING POLICIES (continued)

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.

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.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

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

2.4 BASIS OF CONSOLIDATION (continued)

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

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

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

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

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

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

2.5 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)
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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments (continued)

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates and joint ventures (continued)
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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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.
- 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)
Deferred tax (continued)
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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)
The following assets have specific characteristics for impairment testing:

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)
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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

		KD 000's
	2014	*2013*
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:

	KD 000's	
	2014	*2013*
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:

	KD 000's	
Industry sector	*2014*	*2013*
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

	KD 000's	
Geographic region	*2014*	*2013*
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

9 FINANCING RECEIVABLES (continued)

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

	Specific		*General*		*Total* *KD 000's*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*
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*	*KD 000's* *Total*
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

	2014	*2013*
		KD 000's
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:

<u>*Summarised consolidated statement of financial position:*</u>

	2014	*2013*
		KD 000's
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

11 INVESTMENT IN ASSOCIATES (continued)

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 (Shoug 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

	2014	*2013*
		KD 000's
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

	2014	*2013*
		KD 000's
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

	2014	*2013*
		KD 000's
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

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

Movement of intangible assets is as follows:

	2014	*2013*
		KD 000's
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, fixtures and equipment*	*Motor vehicles*	*Properties under development*	***2014 Total***
Cost:							
At 1 January 2014	**18,015**	**97,926**	**762,368**	**174,739**	**36,726**	**64,158**	**1,153,932**
Additions	**169**	**11,766**	**27,618**	**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**

16 PROPERTY AND EQUIPMENT (continued)

KD 000's

	Land	*Buildings*	*Aircraft and engines*	*Furniture, fixtures and equipment*	*Motor vehicles*	*Properties under development*	*2013 Total*
Cost:							
At 1 January 2013	18,765	82,808	696,892	181,140	28,198	40,871	1,048,674
Additions	-	11,699	111,946	27,991	23,655	29,661	204,952
Disposals	(1,606)	(92)	(46,470)	(7,694)	(15,127)	(803)	(71,792)
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

16 PROPERTY AND EQUIPMENT (continued)

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:

		KD 000's
	2014	*2013*
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

		KD 000's
	2014	*2013*
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 %* 2014	*Interest in equity %* 2013	*Principal activity*	*Financial statements reporting date*
Kuwait Finance House (Malaysia) Berhad	Malaysia	**100**	100	Islamic banking services	31 December 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 Capital Investments Company K.S.C. (Closed)*	Kuwait	**99.9**	99.9	Islamic finance and investments	30 September 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
Kuwait Finance House B.S.C.	Bahrain	**100**	100	Islamic banking services	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
Kuwait Turkish Participation Bank	Turkey	**62**	62	Islamic banking services	31 December 2014
Al Salam Hospital Co. K.S.C.(Closed)	Kuwait	**55**	55	Healthcare services	30 September 2014

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

19 SUBSIDIARIES (continued)

19.1 Details of principal operating material subsidiaries (continued)

Name	*Country of registration*	*Interest in equity %*		*Principal activity*	*Financial statements reporting date*
		2014	*2013*		
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

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. (ERECO)	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:

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

19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries (continued)

Summarised consolidated statement of income for 31 December 2013:

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

19 SUBSIDIARIES (continued)

19.2 Material partly-owned subsidiaries (continued)

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

	KTPB	*ALAFCO*	*AIG*	*KD 000's* *ERECO*
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

	2014	***KD 000's*** *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:

	2014		*2013*	***KD 000's***
	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 five 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 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

		KD 000's
	2014	*2013*
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

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Employees' share options reserve*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	**Total**
As at 1 January 2013									
(*as previously reported)*	271,578	286,973	-	4,246	6,676	-	-	-	569,473
Effect of restatement (Note 40)	-	-	-	-	-	3,797	(25,626)	(8,920)	(30,749)
Balance at 1 January 2013 *(Restated)*	271,578	286,973	-	4,246	6,676	3,797	(25,626)	(8,920)	538,724
Profit for the year	-	-	115,893	-	-	-	-	-	115,893
Other comprehensive income	-	-	-	-	-	(4,157)	(30,816)	-	(34,973)
Total comprehensive income (loss)	-	-	115,893	-	-	(4,157)	(30,816)	-	80,920
Zakat paid	-	(4,115)	-	-	-	-	-	-	(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)	-	-	-	-	-	(49,835)
Proposed cash dividends (Note 25)	-	-	(48,968)	-	-	-	-	-	(48,968)
Profit on sale of treasury shares	-	-	-	-	49	-	-	-	49
Balance at 31 December 2013 *(Restated)*	283,584	287,942	-	4,246	6,725	(360)	(56,442)	(8,920)	516,775

23 RESERVES (continued)

KD 000's

	Statutory reserve	*Voluntary reserve*	*Retained earnings*	*Employees' share options reserve*	*Treasury shares reserve*	*Fair value reserve*	*Foreign exchange translation reserve*	*Other reserves*	***Total***
As at 1 January 2014 (*as previously reported*)	**283,584**	**287,942**	-	**4,246**	**6,725**	-	-	-	**582,497**
Effect of restatement (Note 40)	-	-	-	-	-	**(360)**	**(56,442)**	**(8,920)**	**(65,722)**
Balance at 1 January 2014 *(Restated)*	**283,584**	**287,942**	-	**4,246**	**6,725**	**(360)**	**(56,442)**	**(8,920)**	**516,775**
Profit for the year	-	-	**126,476**	-	-	-	-	-	**126,476**
Other comprehensive income	-	-	-	-	-	**4,853**	**2,132**	-	**6,985**
Total comprehensive income	-	-	**126,476**	-	-	**4,853**	**2,132**	-	**133,461**
Zakat paid	-	**(6,020)**	-	-	-	-	-	-	**(6,020)**
Transfer to retained earnings (Note 23)	**(45,332)**	**(43,670)**	**89,002**	-	-	-	-	-	-
Proposed issue of bonus shares (Note 25)	-	-	**(43,319)**	-	-	-	-	-	**(43,319)**
Proposed cash dividends (Note 25)	-	-	**(63,935)**	-	-	-	-	-	**(63,935)**
Profit on sale of treasury shares	-	-	-	-	**353**	-	-	-	**353**
Balance at 31 December 2014	**238,252**	**238,252**	**108,224**	**4,246**	**7,078**	**4,493**	**(54,310)**	**(8,920)**	**537,315**

23 RESERVES (continued)

In the ordinary and extraordinary general assembly meeting of the shareholders of the Bank held on 14 March 2005, the ordinary general assembly resolved to suspend transfers 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.

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 :		
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

24 SHARE CAPITAL AND TREASURY SHARES (continued)

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:

	2014		*2013*	*KD 000's*
		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**

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

	Positive fair value	*Negative fair value*	*Notional amount*	*Notional amounts by term to maturity (KD 000's)*		
				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:

	Notional amount	*Within 3 months*	*3 to 12 Months*	*More than 12 months*
				KD 000's
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 shareholders	*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 shareholders	*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 and 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 and capital commitments	**936**	**7,967**	**18**	**27,347**	**36,268**	21,439
Investment managed by related party	-	-	-	**33,453**	**33,453**	45,522

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

28 RELATED PARTY TRANSACTIONS (continued)

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.

29 SEGMENTAL ANALYSIS (continued)

31 December 2014	*Treasury*	*Investment*	*Banking*	*Other*	*KD 000's 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**

31 December 2013	*Treasury*	*Investment*	*Banking*	*Other*	*KD 000's 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:

	Assets		***KD 000's*** *Contingencies and 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

	Local		*International*		***KD 000's*** *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.

31 RISK MANAGEMENT (continued)

a) Risk management structure

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

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

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

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

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

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

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

b) Risk management and reporting systems

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

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

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

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

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

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.

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.

32 CREDIT RISK (continued)

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

	2014 KD 000's	*2013* KD 000's
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:

	2014 KD 000's	*2013* KD 000's
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**

32 CREDIT RISK (continued)

	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.

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 and joint ventures	-	-	-	462,710	462,710
Investment properties	-	-	-	529,285	529,285
Other assets	207,835	2,984	58,090	370,546	639,455
Intangible assets and goodwill	-	-	-	61,793	61,793
Property and equipment	-	-	-	877,362	877,362
Leasehold rights	-	-	-	117,081	117,081
	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

33 LIQUIDITY RISK (continued)

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*	*KD 000's* *Total*
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 and 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*	*KD 000's* *Total*
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**

33 LIQUIDITY RISK (continued)

KD 000's

	On demand	*Less than 3 Months*	*3 to 12 Months*	*1 to 5 years*	*Over 5 years*	*Total*
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

34 MARKET RISK (continued)

Equity price risk

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

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

KD 000's

	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.

35 CAPITAL MANAGEMENT (continued)

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%

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

39 FAIR VALUES (continued)

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

Financial assets measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*KD 000's* *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

Liabilities measured at fair value:	*(Level 1)*	*(Level 2)*	*(Level 3)*	*KD 000's* *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.

39 FAIR VALUES (continued)

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.

39 FAIR VALUES (continued)

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.